Annual Report 2018

BERTELSMANN

BERTELSMANN

At a Glance 2018

Key Figures (IFRS)

in € millions	2018	2017	2016	2015	2014
Business Development					
Group revenues	17,673	17,190	16,950	17,141	16,675
Operating EBITDA	2,586	2,636	2,568	2,485	2,374
EBITDA margin in percent[1]	14.6	15.3	15.2	14.5	14.2
Bertelsmann Value Added (BVA)[2]	121	163	180	180	211
Group profit	1,104	1,198	1,137	1,108	572
Investments[3]	1,434	1,103	1,240	1,259	1,578
Consolidated Balance Sheet					
Equity	9,838	9,127	9,895	9,434	8,380
Equity ratio in percent	38.8	38.5	41.6	41.2	38.9
Total assets	25,343	23,713	23,794	22,908	21,560
Net financial debt	3,932	3,479	2,625	2,765	1,689
Economic debt[4]	6,619	6,213	5,913	5,609	6,039
Leverage factor	2.7	2.5	2.5	2.4	2.7
Dividends to Bertelsmann shareholders	180	180	180	180	180
Distribution on profit participation certificates	44	44	44	44	44
Employee profit sharing	116	105	105	95	85

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."
The figures shown in the table are, in some cases, so-called Alternative Performance Measures (APM), which are neither defined nor described in IFRS. Details are presented in the section "Alternative Performance Measures" in the Combined Management Report.
Rounding may result in minor variations in the calculation of percentages.

1) Operating EBITDA as a percentage of revenues.
2) Bertelsmann uses BVA as a strictly defined key performance indicator to evaluate the profitability of the operating business and return on investment. From financial year 2018 onward, Bertelsmann Value Added is determined without taking into account the Bertelsmann Investments division.
3) Taking into account the financial debt assumed, investments amounted to €1,461 million (2017: €1,117 million).
4) Net financial debt less 50 percent of the par value of the hybrid bonds plus pension provisions, profit participation capital and the present value of operating leases.

Bertelsmann is a media, services and education company that operates in about 50 countries around the world. It includes the broadcaster RTL Group, the trade book publisher Penguin Random House, the magazine publisher Gruner + Jahr, the music company BMG, the service provider Arvato, the Bertelsmann Printing Group, the Bertelsmann Education Group and Bertelsmann Investments, an international network of funds. The company has 117,000 employees and generated revenues of €17.7 billion in the 2018 financial year. Bertelsmann stands for creativity and entrepreneurship. This combination promotes first-class media content and innovative service solutions that inspire customers around the world.

RTL GROUP

Penguin Random House

G+J

BMG

arvato BERTELSMANN

Bertelsmann Printing Group

Bertelsmann Education Group

BI Bertelsmann Investments

www.bertelsmann.com

Interactive Online Report

The Bertelsmann Annual Report can also be accessed online at: **ar2018.bertelsmann.com**

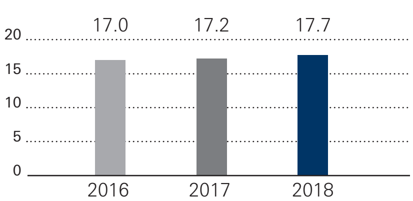
Financial Information

Combined Management Report

Financial Year 2018 in Review

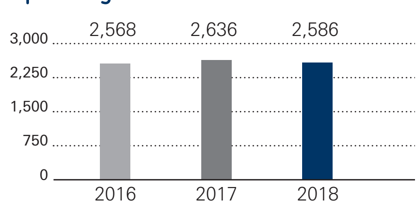
Bertelsmann can look back on a successful year in 2018. Group revenues rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). Organic growth increased to 2.7 percent (previous year: 1.7 percent) due to growth at RTL Group, Penguin Random House, BMG, Arvato and the Bertelsmann Education Group. The revenue share generated by the strategic growth businesses increased to 34 percent (previous year: 32 percent). At €2,586 million, operating EBITDA was once again at a high level. Operating EBITDA in the previous year was €2,636 million and included substantial capital gains from real estate transactions. Earnings growth at Penguin Random House, BMG, Arvato and the Bertelsmann Education Group was offset by declining earnings at Bertelsmann Printing Group in particular. The EBITDA margin went down from 15.3 percent in the previous year to 14.6 percent. Group profit was once again high, at €1,104 million, compared with €1,198 million in the same period in the previous year. For 2019, Bertelsmann again expects positive business performance.

Revenues in € billions



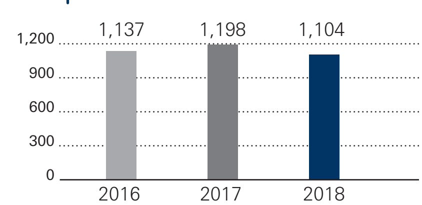
- Revenue growth of 2.8 percent, organic growth of 2.7 percent
- Revenue increases at RTL Group, Penguin Random House, BMG, Arvato and Bertelsmann Education Group
- Organic revenue growth in growth businesses

Operating EBITDA in € millions



- Decrease in operating EBITDA by 1.9 percent to €2,586 million
- Previous-year figure included capital gains from real estate transactions
- Decline in EBITDA margin to 14.6 percent compared with 15.3 percent in the same period in the previous year

Group Profit in € millions



- Group profit exceeds billion-euro mark for the fourth consecutive year
- Decline due to the lower operating result and greater impacts from special items
- Lower tax expense

Fundamental Information about the Group

In this Management Report, the Group is using the option to combine the Group Management Report and the Management Report of Bertelsmann SE & Co. KGaA. This Combined Management Report outlines the business performance, including the business result and the position of the Bertelsmann Group and Bertelsmann SE & Co. KGaA. Information about Bertelsmann SE & Co. KGaA in accordance with the German Commercial Code (HGB) will be detailed in a separate section. The Combined Management Report will be published instead of the Group Management Report within the Bertelsmann Annual Report.

Corporate Profile

Bertelsmann operates in the core business fields of media, services and education in around 50 countries worldwide. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as Brazil, India and China. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds).

Bertelsmann SE & Co. KGaA is a publicly traded but unlisted partnership limited by shares. As a Group holding company, it exercises central corporate functions such as the specification and development of the Group's strategy, capital allocation, financing and management development. Internal corporate management and reporting follow the Group's organizational structure, which consists of the operating divisions and Corporate.

RTL Group is, based on revenue, one of the leading television groups in the broadcasting, content and digital business with interests in 60 television channels, eight video-on-demand platforms, 30 radio stations and content production throughout the world. The television portfolio includes RTL Television in Germany, M6 in France and the RTL channels in the Netherlands, Belgium, Luxembourg, Croatia and Hungary, as well as a stake in Atresmedia in Spain. Fremantle, the production unit of RTL Group, is one of the largest international creators, producers and distributors of a wide range of formats outside the United States. RTL Group is active in the area of online video with the on-demand services of its broadcasters; the multiplatform networks BroadbandTV, StyleHaul, Divimove and United Screens; and Fremantle's over 300 YouTube channels. Furthermore, RTL Group owns SpotX, a programmatic video advertising platform. The publicly traded RTL Group S.A. is listed on the German MDAX index.

Penguin Random House is, based on revenue, the world's largest trade book publisher, with nearly 275 imprints across six continents. Its well-known book brands include Doubleday, Viking and Alfred A. Knopf (United States); Ebury, Hamish Hamilton and Jonathan Cape (United Kingdom); Plaza & Janés and Alfaguara (Spain); Sudamericana (Argentina); and the international imprint DK. Germany's Verlagsgruppe Random House, which includes illustrious publishing houses such as Goldmann and Heyne, is not part of Penguin Random House from a legal point of view, but is under the same corporate management and is part of the Penguin Random House division. Each year Penguin Random House publishes about 15,000 new titles and sells around 600 million print books, e-books and audiobooks.

Gruner + Jahr is one of Europe's leading premium magazine publishers. Its magazine portfolio includes established brands such as "Stern," "Brigitte" and "Geo"; young brands like "Barbara," "Guido" and "Chefkoch"; and the French magazine publisher Prisma Media. It also has products and licenses such as the "Schöner Wohnen" furniture collection and digital offerings in all publishing segments. In digital marketing G+J operates international platforms such as AppLike. Territory, Germany's largest communication agency for brand content, is also part of G+J. In addition, G+J holds majority stakes in Motor Presse Stuttgart and in DDV Mediengruppe in Saxony, and holds a stake in Spiegel-Gruppe.

BMG is an international music company with 15 offices in 12 music markets, now representing more than three million songs and recordings, including the catalogs of Alberts Music, Broken Bow Music Group, Bug, Cherry Lane, Chrysalis, Mute, Primary Wave, Sanctuary and Trojan, among others.

Arvato develops and implements innovative solutions for customers in a wide range of sectors in over 40 countries for all kinds of business processes. These comprise Customer Relationship Management (CRM), Supply Chain Management (SCM), Financial Solutions and IT Services.

The Bertelsmann Printing Group unites Bertelsmann's printing activities. This includes German offset printing companies such as Mohn Media, the Prinovis gravure printing operations in Germany and the United Kingdom, and the offset and digital printing plants in the United States. In addition, various digital marketing services are offered, with a focus on data-driven multichannel marketing, campaign management and customer loyalty. The Bertelsmann Printing Group also includes the storage media producer Sonopress.

Bertelsmann Education Group comprises Bertelsmann's education activities. The digital education and service offerings are primarily in the healthcare and technology sectors, as well as in the university education area. The education activities include the online education providers Relias and Udacity, as well as the US university services provider HotChalk.

Bertelsmann Investments bundles Bertelsmann's global start-up investments. The activities are focused on the strategic growth markets of Brazil, China, India and the United States. Investments are made through the funds Bertelsmann Brazil Investments (BBI), Bertelsmann Asia Investments (BAI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI).

Regulatory Environment

Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, some education activities are subject to regulatory provisions of government authorities and accreditation bodies.

Because its profit participation certificates and bonds are publicly listed, Bertelsmann is required to comply with capital market regulations applicable to publicly traded companies.

Shareholder Structure

Bertelsmann SE & Co. KGaA is an unlisted partnership limited by shares. Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the remaining 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE (general partner).

Strategy

Bertelsmann aims to achieve a faster-growing, more digital, more international and more diversified Group portfolio. Businesses in which Bertelsmann invests should have long-term stable growth, global reach, sustainable business models, high market-entry barriers and scalability. The rapidly expanding education business is being developed into the third earnings pillar alongside the media and service businesses. The Group strategy comprises four strategic priorities: strengthening the core businesses, driving the digital transformation forward, developing growth platforms and expanding into growth regions. In the financial year 2018, steady efforts continued to focus on implementing the strategy in line with these priorities.

As part of strengthening core businesses, RTL Group invested in local and exclusive content that enhances both linear and non-linear services, and intensified its focus on own productions. "Becoming" by Michelle Obama was the most important publication of the year for Penguin Random House, published simultaneously in all of its markets. With new magazines such as "Guido," "JWD" and "Dr. v. Hirschhausen's Stern Gesund Leben," Gruner + Jahr continued to build media products around famous personalities. In the reporting period, Gruner + Jahr completed its focus on the core markets of Germany and France. The successful merging as of 2019 of CRM activities at Bertelsmann and the Saham Group continues the strategic development of Arvato's CRM businesses. The new group, Majorel, will push the continued expansion of the global presence and digital transformation of the service portfolio in coming years.

As part of the digital transformation, RTL Group expanded its video-on-demand offerings, for example with the relaunch of TV Now in Germany, and merged the online advertising marketers SpotX and SmartClip. In France, Groupe M6, together with partners, plans to create a joint online video platform, which aims to provide French television programming of all formats and all genres, live or on demand. Germany's Verlagsgruppe Random House acquired the audiobook publisher DAV, thereby strengthening its offerings in the growing audiobook market. Gruner + Jahr continued to expand the app discovery platform AppLike, and Arvato grew its service business with customers from the IT and tech industries.

In the area of growth platforms, the RTL Group production unit Fremantle profited from the return of "American Idol," and produced new series such as "My Brilliant Friend" and "Deutschland 86." BMG's acquisitions included the world music label World Circuit Records, and BMG signed a global publishing agreement with former Beatles drummer Ringo Starr. Arvato continued to organically expand its logistics and financial services activities. In addition, Arvato invested in the Israeli fintech start-up Secured Touch. The education business bundled in the Bertelsmann Education Group was further strengthened by the acquisition of the US online education provider OnCourse Learning. The company provides digital corporate and advanced training courses, particularly to clients in the healthcare sector. The Bertelsmann Education Group also acquired a majority stake in the US university services provider HotChalk.

In the growth regions, Bertelsmann further expanded its global network of investments in digital companies, making multiple new and follow-on investments worldwide through the funds grouped under Bertelsmann Investments. For example, Bertelsmann Asia Investments (BAI) invested in the Chinese music streaming platform NetEase Cloud Music and increased its investments in the financial service provider Linklogis and the e-commerce platform Club Factory. At the same time, BAI successfully divested a number of stakes, including shares in the dating app Tantan. Bertelsmann Brazil Investments (BBI) successfully acquired a majority stake in Afferolab, a corporate training service provider in Brazil. In addition, Penguin Random House announced the increase of its stake in the Brazilian publisher Companhia das Letras. In India, Bertelsmann India Investments (BII) invested in the direct-to-consumer food platform Licious and increased its investment in the social media portal Roposo. Furthermore, Penguin Random House expanded its local offerings in India by acquiring the publisher Hind Pocket Books.

Bertelsmann will continue to push ahead with its ongoing transformation in 2019 in line with the four strategic priorities. Compliance with and achievement of the strategic development priorities are continuously examined by the Executive Board at the divisional level through regular meetings of the Strategy and Business Committee and as part of the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board. In addition, relevant markets and the competitive environment are analyzed on an ongoing basis in order to draw conclusions concerning the further development of the Group's strategy. The Executive Board is also supported by the Group Management Committee (GMC) on issues of corporate strategy and development. This Committee is composed of executives representing key businesses, countries and regions and select Group-wide functions.

The Group's content-based and entrepreneurial creativity is also very important for the implementation of its strategy. Bertelsmann will therefore continue to invest in the creative core of its businesses. Simultaneously, innovation competence is very important for Bertelsmann and is a key strategic component (see the section "Innovations").

Value-Oriented Management System

Bertelsmann's primary objective is continuous growth of the company's value through a sustained increase in profitability with efficient capital investment at the same time. To manage the Group, Bertelsmann has been using a value-oriented management system for many years, which focuses on revenues, operating earnings and optimal capital investment. For formal reasons, Bertelsmann makes a distinction between strictly defined and broadly defined operational performance indicators.

Strictly defined operational performance indicators, including revenues, operating EBITDA and Bertelsmann Value Added (BVA), are used to directly assess current business performance and are correspondingly used in the outlook. These are distinguished from performance indicators used in the broader sense, which are partially derived from the above-mentioned indicators or are strongly influenced by these. These include the EBITDA margin and the cash conversion rate. The financial management system, with defined internal financing targets, is also part of the broadly defined value-oriented management system. Details of the expected development of performance indicators used in the broader sense are provided as additional information and are not included in the outlook.

To explain the business performance and to control and manage the Group, Bertelsmann also uses alternative performance measures that are not defined in accordance with IFRS (more details are given in the section "Alternative Performance Measures").

Strictly Defined Operational Performance Indicators

To control and manage the Group, Bertelsmann uses revenues, operating EBITDA and BVA as performance indicators. Revenue is used as a growth indicator of businesses. Group revenues in the financial year 2018 rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). The organic growth was 2.7 percent.

A key performance indicator for measuring the profitability of the Bertelsmann Group and the divisions is the operating EBITDA. Operating EBITDA increased to €2,586 million (previous year: €2,636 million) in the reporting period.

Bertelsmann uses BVA for assessing the profitability of operations and return on invested capital. BVA measures the profit realized above and beyond the appropriate return on invested capital. At €121 million, BVA in the financial year 2018 was below the previous year's figure of €163 million. This trend was caused by a lower operating result and the impact of above-average invested capital.

Broadly Defined Performance Indicators

To assess business development, other performance indicators are used that are partially derived from revenues and operating EBITDA or are strongly influenced by these figures.

The cash conversion rate serves as a measure of cash generated from business activities, which should be between 90 percent and 100 percent as a long-term average. In the financial year 2018, the Cash Conversion Rate was 91 percent (previous year: 92 percent).

The EBITDA margin is used as an additional criterion for assessing business performance. In the financial year 2018, the EBITDA margin of 14.6 percent was below the previous year's level of 15.3 percent.

Bertelsmann's financial management and controlling system is defined by the internal financial targets outlined in the section "Net Assets and Financial Position." These financing principles are pursued in the management of the Group and are included in the broadly defined value-oriented management system.

The non-financial performance indicators (employees, corporate responsibility and similar topics) are not included in the broadly defined value-oriented management system. As they can only be measured to a limited extent, it is not possible to make any clear quantifiable statements concerning interrelated effects and value increases. For this reason, the non-financial performance indicators are not used for the management of the Group.

Non-Financial Performance Indicators

The following section describes the non-financial performance indicators at Bertelsmann. For more information about the organization, management and key topics of corporate responsibility, please refer to page 40 et seq. of the section "Combined Non-Financial Statement."

Employees

At the end of the financial year 2018, the Group had 117,220 employees worldwide. In 2018, there were 1,279 people serving in trainee positions in Bertelsmann companies in Germany.

The purpose of the human resources (HR) strategy is to support the implementation of the Group's strategy. In 2018, the main focus was again on the further development and training of employees. This included a comprehensive adaptation of the central talent management processes and tools, including the expansion of talent pools and digital learning.

Continuous employee training is the basis of a company's future economic success. In view of this, the training courses offered by Bertelsmann University have been further digitized and expanded. Furthermore, at the end of 2018, over 92,000 employees in 48 countries were able to access training courses on the Group-wide digital "peoplenet" HR IT platform.

Supporting dialogue between the employee representatives and dialogue with Bertelsmann management is also very important. At the Group Dialogue Conference in December 2018, future work developments were discussed. In addition, together with the disabled persons councils, an Inclusion Action Plan was prepared to improve participation of disabled persons in the working environment, and is slated to be adopted in 2019.

Continuing to develop the corporate culture is another priority of the HR strategy. In 2018, the Group continued to revise the Bertelsmann Essentials (company values) in accordance with the Sense of Purpose.

Bertelsmann has been one of the pioneers in profit sharing since 1970. Accordingly, in 2018, a total of €105 million of the 2017 profit was distributed to employees across the Group (previous year: €105 million).

Corporate Responsibility

The aim of corporate responsibility (CR) at Bertelsmann is to bring the economic interests in line with the Group's social and ecological concerns as part of a dialogue with all relevant stakeholders.

In view of this, the Bertelsmann CR Council continued its cross-divisional dialogue and the strategic further development of significant Group-wide CR topics in 2018. The focus was on topics of particular relevance relating to employee and social concerns, respect for human rights, the fight against corruption and bribery, and environmental concerns. Bertelsmann made donations and was involved in funding initiatives in the areas of education, culture, science and creativity.

Innovations

Businesses invest in the research and development of new products in order to ensure their long-term competitiveness. The media sector has a similar imperative to create innovative media content and media-related products and services in a rapidly changing environment. This means that instead of conventional research and development activities, Bertelsmann views the company's own innovative power as particularly important for business development. The long-term success of the Group depends heavily on product innovations, investing in growth markets and integrating new technologies. Furthermore, innovative expertise is very important for strategy implementation.

Bertelsmann relies on innovation and growth in core operations and new business fields. The key success factors of Bertelsmann's innovation management include continuously following cross-industry trends and observing new markets. At the Group level, Bertelsmann works with the divisions to continuously identify and implement innovative business strategies. Alongside market-oriented activities, support is given to Group-wide initiatives that actively promote knowledge transfer and collaboration. At regular innovation forums, executives meet with internal and external experts to examine success factors for innovation and creativity. Furthermore, cooperation is strengthened with increased collaboration among the divisions. The marketer IP Deutschland and G+J eMS have combined their capabilities into the "Ad Alliance" and have been providing them to advertising clients and media agencies since 2017. In addition, on February 1, 2019, Bertelsmann launched the new "Bertelsmann Content Alliance" in Germany, a cooperation between all content businesses in the Group for developing and marketing mutual formats across divisions.

The innovations at RTL Group focus on three core topics: continuously developing new, high-quality TV formats; using all digital means of distribution; and expanding diverse forms of advertising sales and monetization. RTL Group's "New Frontiers" transformation process introduced in 2018 is aimed at fostering organic growth, thereby fostering creativity and innovative strength. Mediengruppe RTL Deutschland relaunched its video-on-demand platform TV Now in 2018. This relaunch comprises a new platform and additional exclusive content, such as Online First formats. One example of a fictional "TV Now Original" is "M – Eine Stadt sucht einen Mörder" ("M – A City Hunts a Murderer"). Furthermore, RTL Group established the "Creative Reality Fund," an innovation competition within the company for tapping additional potential in virtual and augmented reality technologies for its own media services. Synergy committees are used for regularly exchanging information and knowledge within RTL Group.

Innovation at Penguin Random House is intended on the one hand to extend the reach of its books and create a relationship with readers at scale, and on the other hand, to utilize modern technologies and introduce new formats. One example of innovative reader involvement is the partnership between Penguin Random House and Inception, a virtual reality and augmented reality (AR) specialist. As part of this partnership, the Bookful app was developed for accessing classic children's books and nonfiction for young readers and bringing illustrations to life for selected titles with the assistance of AR technologies. Young readers can interact with the figures in a story, and in so doing, intensify their learning and comprehension. Penguin Random House also launched a voice skill called Good Vibes, which Amazon Alexa builds on with inspirational short excerpts from popular books and quotes from bestselling authors. The company is also targeting new audiences in other innovative ways, such as the "Penguin Minis" series format – pocket-sized, full-length books that can easily fit in the palm of a hand – introduced to the American market with titles by bestselling author John Green.

The innovations at Gruner + Jahr included developing new magazines and expanding the brand business. Positive business performance of the marketing platform AppLike and increased digital offerings of the classic magazine brands of Prisma Media contributed to additional growth in the digital business. G+J also launched innovative magazines. In addition to the gourmet magazine "B-Eat," G+J created the personality magazine genre with "Boa," "Guido," "JWD" and "Dr. v. Hirschhausen's Stern Gesund Leben." G+J further expanded its brands with the opening of the first "Beef!" restaurant, the expansion of the "Schöner Wohnen" licensing business and further development of "Eat the World," a culinary-cultural city tour operator.

Innovation at BMG is based on the company's five strategic pillars: focusing on growth markets; expanding and diversifying its repertoire; expanding global presence; and relentlessly delivering on its core values of fairness, transparency and service while retaining its competitive approach to costs. A key innovation in 2018 was the expansion of the royalties app myBMG, which is now available not only to songwriters but also to artists represented by BMG. Further innovations included the historic blues project "Confessin' The Blues" created together with the Rolling Stones, the 50-year anniversary celebration for Trojan Records and the Joan Jett documentary "Bad Reputation."

All four business areas at Arvato introduced innovations, with a strong focus on the use of innovative technologies and on design, as well as creating new services or enhancing existing solutions. Among others, analytics, machine learning and chatbots were used to continue automation of customer communication processes and to optimize end-customer service. Its acquisition of 3C Deutschland GmbH has enabled Arvato Financial Solutions to offer a fully automated and digitalized claims management process for car insurance. Solution Group SCM Solutions has continued to develop business intelligence solutions along the supply chain, and Arvato Systems has expanded its innovative cloud services and cloud management portfolio.

Innovations at the Bertelsmann Printing Group included the optimization of existing processes with new technologies and creating innovative products and services. For example, in gravure printing technical innovations were integrated into the production process, making one-step manufacture of products with a wrapper possible. GGP Media expanded its innovative online platform P3, which is used for ordering small printings, to include a completely digital process. Offset printing continued to expand its 3D scanning products and launched a division-spanning project to automate and standardize internal processes with the help of IT. Furthermore, an innovation board was launched in mid-2018 to coordinate innovation topics across divisions.

The innovations at Bertelsmann Education Group mainly consist of the further development of digital and customized education offerings and the expansion of existing business areas. Relias continued to strengthen teaching products for medical personnel in emergency care by acquiring the US online education provider OnCourse Learning. At the same time, Relias developed solutions for providing more data-based support to customers in the healthcare sector in improving performance within companies. Udacity developed new Nanodegree programs, also in the area of artificial intelligence, thus setting further standards in student qualifications for future technology jobs.

Report on Economic Position

Corporate Environment

Overall Economic Developments

In 2018 the global economy maintained its economic momentum from the previous year, yet the pace slowed somewhat. Real GDP increased by 3.7 percent compared to 3.8 percent in 2017. However, differences between countries in terms of economic growth increased in 2018. Monetary tightening in the United States affected international capital flows, which dampened economic expansion in emerging countries.

The eurozone was not able to maintain the previous year's high growth rate. Real GDP grew by 1.8 percent in 2018 compared to 2.4 percent in the previous year. A drop in demand from abroad as well as several country- and sector-specific factors had the greatest negative impact on GDP.

The expansion of the German economy was weaker in 2018. Real GDP grew by 1.4 percent compared to 2.2 percent in the previous year. The economic upswing also slowed down in France. Real GDP growth was 1.5 percent in 2018 compared to 2.3 percent in 2017. The UK economy grew only slightly against the backdrop of Brexit negotiations. Real GDP grew by 1.4 percent compared to 1.8 percent in the previous year.

In the United States, the economy expanded more rapidly. Real GDP growth was 2.9 percent in 2018 compared to 2.2 percent in 2017. Major contributors to this growth were the positive employment situation and its impact on consumer expenditures.

Developments in Relevant Markets

The following analysis focuses on markets and regions that are of a sufficient size and are strategically important from a Group perspective.

Growth in European TV advertising markets was mixed in 2018. TV advertising markets grew slightly in France and moderately in the Netherlands, whereas the German market showed a slight decrease and Belgium showed a moderate drop. Spanish and Hungarian TV advertising markets were stable.

The markets for printed books achieved slightly positive growth overall in 2018. Sales of printed books in the United States showed moderate growth and in the United Kingdom sales grew slightly, while the Spanish-language market and the German market for printed books were stable. Publisher sales of e-books declined moderately in the United States and in the United Kingdom. The market for audiobooks continued to grow strongly in the United States and the United Kingdom.

The magazine markets in Germany and France in 2018 were characterized by strongly declining print advertising business and significantly declining circulation business, while the digital business in Germany posted strong growth.

The global music markets in 2018 reported moderate growth in the publishing rights segment. The recording rights market segment grew significantly.

The key service markets for Arvato, namely Customer Relationship Management, Supply Chain Management, Financial Solutions and IT, saw moderate to significant growth.

The European offset printing markets declined moderately in 2018, while the European gravure printing markets declined significantly. The development of the North American book printing market was stable over the same period.

The education markets in the United States continued to grow strongly overall in 2018 in the market segments where Bertelsmann is involved – namely, e-learning in the areas of healthcare and technology, and university education in the university and services areas.

Significant Events in the Financial Year

On January 16, 2018, Thomas Buberl was appointed as a new member of the Supervisory Board of Bertelsmann SE & Co. KGaA with immediate effect.

On July 9, 2018, Günter Göbel was appointed as Employee Representative to the Supervisory Board of Bertelsmann SE & Co. KGaA with immediate effect. As the new Chairman of the Corporate Works Council, he replaced Helmut Gettkant, who left the Supervisory Board at the end of the ordinary Annual General Meeting.

In September 2018, Bertelsmann and the Saham Group in Morocco announced the merger of their global CRM businesses. This merger serves to promote the development of Arvato's CRM business.

In November 2018, the Bertelsmann Education Group acquired full ownership of the US online education provider OnCourse Learning from the private equity company CIP Capital. The company provides digital corporate and advanced training courses to clients in the healthcare and financial services sectors. The acquisition of OnCourse Learning serves the further expansion of the education business and in particular strengthens the activities of Relias, a business of the Bertelsmann Education Group.

In late 2018, Groupe M6 (part of RTL Group) sold its majority stake in the French soccer club Girondins de Bordeaux to GACP, a US investment fund.

Anke Schäferkordt resigned from the Executive Board of Bertelsmann Management SE effective December 31, 2018.

Results of Operations

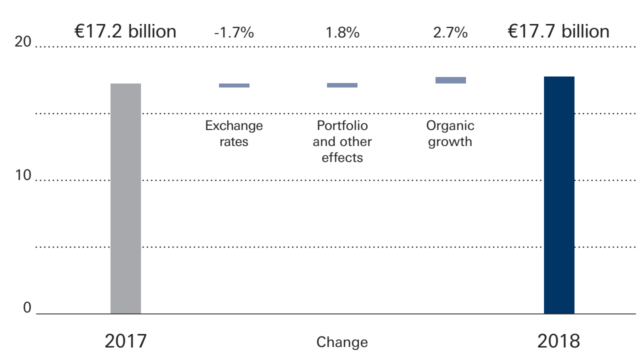
The following analysis of earnings performance relates to continuing operations as of December 31, 2018. Please refer to the section "Performance of the Group Divisions" for a more detailed picture of the results of operations.

Revenue Development

Group revenues in the financial year 2018 rose by 2.8 percent to €17.7 billion (previous year: €17.2 billion). Revenue increases were recorded by RTL Group, Penguin Random House, BMG, Arvato and Bertelsmann Education Group. The Group achieved organic growth of 2.7 percent, adjusted for exchange rate, portfolio and other effects. Exchange rate effects were -1.7 percent; portfolio and other effects were 1.8 percent. Other effects were largely changes in reported revenue due to the new IFRS 15 (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards").

Revenues at RTL Group rose 2.1 percent to €6,505 million (previous year: €6,373 million). The organic growth was 3.1 percent. The primary growth contributors were the rapidly growing digital business, the content production arm Fremantle and RTL Nederland. Revenues at Penguin Random House rose 1.9 percent to €3,424 million (previous year: €3,359 million). The organic growth was 1.3 percent. Exchange rate effects had a negative impact, while changes in revenue reporting had a beneficial impact on revenues.

Revenue Breakdown



Revenues by Division

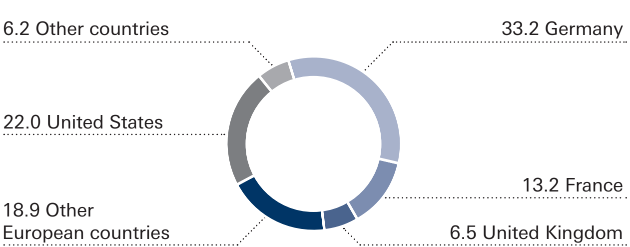
in € millions			2018			2017
	Germany	Other countries	Total	Germany	Other countries	Total
RTL Group	2,168	4,337	6,505	2,266	4,107	6,373
Penguin Random House	257	3,167	3,424	250	3,109	3,359
Gruner + Jahr	948	492	1,440	964	549	1,513
BMG	34	511	545	33	474	507
Arvato	1,630	2,470	4,100	1,521	2,302	3,823
Bertelsmann Printing Group	966	673	1,639	957	724	1,681
Bertelsmann Education Group	1	257	258	1	188	189
Bertelsmann Investments	0	12	12	–	–	–
Total divisional revenues	6,004	11,919	17,923	5,992	11,453	17,445
Corporate/Consolidation	(145)	(105)	(250)	(152)	(103)	(255)
Continuing operations	5,859	11,814	17,673	5,840	11,350	17,190

At €1,440 million, Gruner + Jahr’s revenues were down 4.8 percent year on year (previous year: €1,513 million). The organic growth was 0.4 percent. The lower revenue level is largely attributable to portfolio adjustments, which have in the meantime been completed. This was offset by revenue growth of the digital, agency and press distribution businesses. BMG revenues increased by 7.5 percent to €545 million (previous year: €507 million) due to continued expansion of business. The organic growth was 7.8 percent. Revenues at Arvato rose 7.2 percent to €4,100 million (previous year: €3,823 million). The organic growth was 5.6 percent. The increase stemmed in particular from positive business development in the SCM and Financial Solutions divisions and from changes in reporting revenue. Revenues at Bertelsmann Printing Group fell 2.5 percent to €1,639 million (previous year: €1,681 million) due to market effects. The organic growth was -4.2 percent. Bertelsmann Education Group increased its revenues by 36.4 percent to €258 million (previous year: €189 million). The organic growth was 13.9 percent. The rise was primarily the result of the first-time consolidation of HotChalk and the organic expansion of Relias. Bertelsmann Investments’ stakes are generally not consolidated, so there is usually no revenue reported for this division.

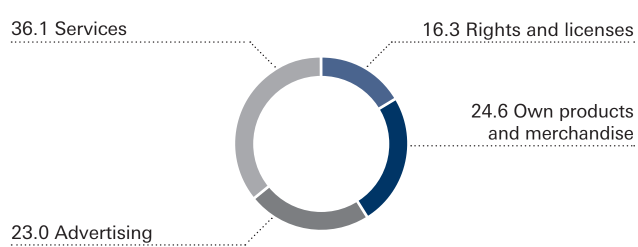
The revenue share generated by the growth businesses increased to 34 percent overall (previous year: 32 percent), thanks to organic growth and acquisitions, while the revenue share of structurally declining businesses remained stable at 4 percent (previous year: 4 percent). The growth businesses comprise those activities that post continuous revenue increases due to sustained positive market factors and that have been identified as growth priorities as part of Group strategy. These include the digital businesses of RTL Group and Gruner + Jahr; the TV production, music business and service businesses in the Arvato divisions of SCM Solutions and Financial Solutions and Systems; and the education business. The structurally declining businesses comprise those activities that post sustained revenue losses due to market factors. These include in particular the gravure printing activities and the storage media replication business.

There were only minor changes in the geographical breakdown of revenues compared to the previous year. The share of revenues generated in Germany was 33.2 percent compared to 34.0 percent in the previous year. The revenue share

Consolidated Revenues by Region in percent



Consolidated Revenues by Category in percent



Results Breakdown

in € millions	2018	2017
Operating EBITDA by division		
RTL Group	1,402	1,478
Penguin Random House	528	521
Gruner + Jahr	140	145
BMG	122	104
Arvato	377	320
Bertelsmann Printing Group	85	118
Bertelsmann Education Group	37	3
Bertelsmann Investments	(3)	(3)
Total operating EBITDA by division	2.688	2,686
Corporate/Consolidation	(102)	(50)
Operating EBITDA from continuing operations	2,586	2,636
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(670)	(657)
Special items	(296)	(83)
EBIT (earnings before interest and taxes)	1,620	1,896
Financial result	(216)	(219)
Earnings before taxes from continuing operations	1,404	1,677
Income tax expense	(301)	(472)
Earnings after taxes from continuing operations	1,103	1,205
Earnings after taxes from discontinued operations	1	(7)
Group profit or loss	1,104	1,198
attributable to: Earnings attributable to Bertelsmann shareholders	753	776
attributable to: Earnings attributable to non-controlling interests	351	422

generated by France amounted to 13.2 percent (previous year: 13.4 percent). In the United Kingdom, the revenue share was 6.5 percent (previous year: 6.8 percent). The share of total revenues generated by the other European countries amounted to 18.9 percent compared to 18.7 percent in the previous year. The revenue share generated by the United States was 22.0 percent (previous year: 20.5 percent), and the other countries achieved a revenue share of 6.2 percent (previous year: 6.6 percent). This means that the share of total revenues generated by foreign business was 66.8 percent (previous year: 66.0 percent). Year on year, there was a slight change in the ratio of the four revenue sources (own products and merchandise, services, advertising, rights and licenses) to overall revenue.

Operating EBITDA

Bertelsmann achieved operating EBITDA of €2,586 million in the financial year 2018 (previous year: €2,636 million). The 1.9 percent drop is attributable to negative exchange rate effects and capital gains for real estate sales realized in the previous year. BMG, Arvato and Bertelsmann Education Group posted substantially improved earnings. The EBITDA margin decreased to 14.6 percent (previous year: 15.3 percent).

Operating EBITDA at RTL Group was down 5.1 percent to €1,402 million (previous year: €1,478 million). The previous year's value included a high capital gain from the sale of commercial buildings. Without this effect, the increase was 1.3 percent, driven by higher contributions from RTL Belgium, Groupe M6 and Fremantle. Operating EBITDA at Penguin Random House rose by 1.3 percent to €528 million (previous year: €521 million). Gruner + Jahr's operating EBITDA decreased by 3.4 percent to €140 million (previous year: €145 million) due to declining advertising and circulation revenues in the core businesses in Germany and France. BMG's operating EBITDA increased by 17.3 percent to €122 million (previous year: €104 million), attributable to continued business expansion. Arvato achieved operating EBITDA of €377 million (previous year: €320 million). The strong increase of 17.8 percent reflects improved earnings in all four business areas. Operating EBITDA at Bertelsmann Printing Group declined by 28.0 percent to €85 million (previous year: €118 million) due to declining volumes and the persistent pressure on prices. Operating EBITDA at Bertelsmann Education Group increased significantly to €37 million (previous year: €3 million). Relias in particular posted high earnings growth. Bertelsmann Investments' stakes are generally not consolidated, so that in most cases no operating results are disclosed for this division.

Special Items

Special items in the financial year 2018 totaled €-296 million compared to €-83 million in the previous year. They consist of impairment losses amounting to €-175 million (previous year: €-100 million), results from disposals of investments and remeasurements totaling €157 million (previous year: €193 million), as well as restructuring expenses and other adjustments totaling €-278 million (previous year: €-176 million). The increase in restructuring expenses is due primarily to adjustments related to strategic reorientation of the CRM activities (see also the reconciliation of EBIT to operating EBITDA in the notes to the Consolidated Financial Statements).

EBIT

EBIT amounted to €1,620 million in the financial year 2018 (previous year: €1,896 million) after adjusting operating EBITDA for special items totaling €-296 million (previous year: €-83 million), and the amortization, depreciation, impairments and reversals of impairments on intangible assets and property, plant and equipment totaling €-670 million (previous year: €-657 million), which were not included in adjustments.

Group Profit or Loss

The financial result was €-216 million, compared with the previous year's amount of €-219 million. The decrease in income tax expense from €-472 million in the previous year to €-301 million was basically the result of the lower earnings before taxes and the measurement of deferred taxes. This produced earnings after taxes from continuing operations of €1,103 million (previous year: €1,205 million). Taking into account the earnings after taxes from discontinued operations of €1 million (previous year: €-7 million), this resulted in Group profit of €1,104 million (previous year: €1,198 million). The share of Group profit attributable to non-controlling interests came to €351 million (previous year: €422 million). The share of Group profit attributable to Bertelsmann shareholders was €753 million (previous year: €776 million). At the Annual General Meeting of Bertelsmann SE & Co. KGaA, an unchanged year-on-year dividend payout of €180 million will be proposed for the financial year 2018 (previous year: €180 million).

Net Assets and Financial Position

Financing Guidelines

The primary objective of Bertelsmann's financial policy is to achieve a balance between financial security, return on equity and growth. For this, Bertelsmann bases its financing policy on the requirements of a "Baa1/BBB+" credit rating and the associated qualitative and quantitative criteria. Credit ratings and capital market transparency make a considerable contribution to the company's financial security and independence.

In accordance with the Group structure, the capital allocation is made centrally by Bertelsmann SE & Co. KGaA, which provides the Group companies with liquidity and manages the issuance of guarantees and letters of comfort for them. The Group consists largely of a single financial unit, thereby optimizing capital procurement and investment opportunities.

Bertelsmann utilizes a financial control system employing quantitative financial targets concerning the Group's economic debt and, to a lesser extent, its capital structure. One of the financial targets is a dynamic leverage factor limited to the defined maximum of 2.5. As of December 31, 2018, the leverage factor of Bertelsmann was 2.7, higher than the previous year's level (December 31, 2017: 2.5). This was attributable mainly to an increase in net financial debt due to the acquisition of the US online education provider OnCourse Learning in the fourth quarter of 2018 (see further explanation in the section "Alternative Performance Measures").

As of December 31, 2018, economic debt increased to €6,619 million from €6,213 million in the previous year due to an increase in net financial debt to €3,932 million (December 31, 2017: €3,479 million). In contrast, the present value of obligations from operating leases decreased to €1,161 million (December 31, 2017: €1,261 million), particularly due to the sale of the French soccer club Girondins de Bordeaux. Provisions for pensions and similar obligations rose to €1,738 million as of December 31, 2018 (December 31, 2017: €1,685 million), primarily due to a decrease in the measurement of plan assets.

Another financial target is the coverage ratio. This is calculated as the ratio of operating EBITDA, used to determine the leverage factor, to financial result and should exceed four. In the reporting period, the coverage ratio was 11.1 (previous year: 11.2).

Financial Targets

	Target	2018	2017
Leverage Factor: Economic debt/Operating EBITDA[1]	≤ 2.5	2.7	2.5
Coverage ratio: Operating EBITDA/Financial result[1]	> 4.0	11.1	11.2
Equity ratio: Equity as a ratio to total assets (in percent)	≥ 25.0	38.8	38.5

1) After modifications.

The Group's equity ratio rose to 38.8 percent (December 31, 2017: 38.5 percent), which remains significantly above the self-imposed minimum of 25 percent.

Financing Activities

In the reporting period a promissory note was repaid that was due in June. Furthermore, in September 2018, Bertelsmann placed a bond with a seven-year term and an issue volume of €750 million. The bond, which is listed in Luxembourg, has a fixed 1.25 percent coupon. The proceeds from the bond were primarily used to finance the acquisition of OnCourse Learning, the US online education provider.

Rating

Bertelsmann has been rated by the rating agencies Moody's and Standard & Poor's (S&P) since 2002. The agency ratings facilitate access to the international capital markets and are therefore a key element of Bertelsmann's financial security. Bertelsmann is rated by Moody's as "Baa1" (outlook: stable) and by S&P as "BBB+" (outlook: stable). Both credit ratings are in the investment-grade category and meet Bertelsmann's target rating. Bertelsmann's short-term credit quality rating is "P-2" from Moody's and "A-2" from S&P.

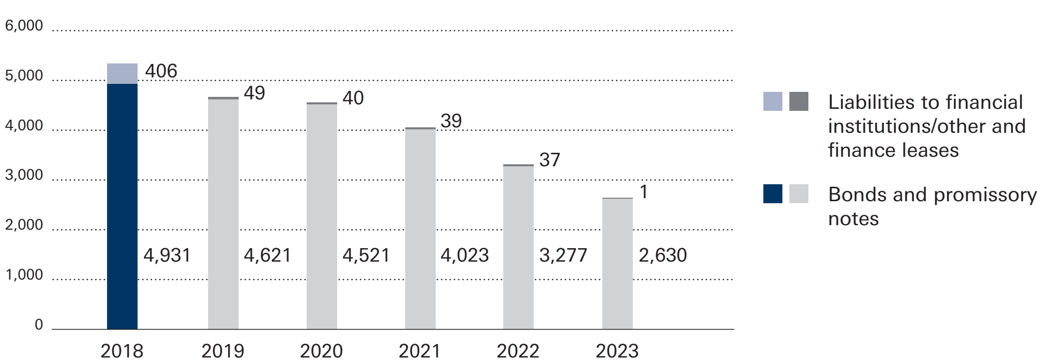
Credit Facilities

In addition to available liquidity, the Bertelsmann Group has access to a syndicated loan agreement with major international banks. This forms the backbone of the strategic credit reserve; Bertelsmann can utilize this with a term until 2021 to draw up to €1.2 billion of revolving funds in euros, US dollars and pounds sterling.

Cash Flow Statement

In the reporting period, Bertelsmann generated net cash from operating activities of €1,437 million (previous year: €1,605 million). The Group's long-term operating free cash flow adjusted for non-recurring items was €1,753 million (previous year: €1,822 million), and the cash conversion rate

Maturity Structure of Financial Debt in € millions



Consolidated Cash Flow Statement (Summary)

in € millions	2018	2017
Cash flow from operating activities	1,437	1,605
Cash flow from investing activities	(1,130)	(760)
Cash flow from financing activities	(372)	(755)
Change in cash and cash equivalents	(65)	90
Exchange rate effects and other changes in cash and cash equivalents	28	(24)
Cash and cash equivalents on 1/1	1,442	1,376
Cash and cash equivalents on 12/31	1,405	1,442
Less cash and cash equivalents included within assets held for sale	–	(2)
Cash and cash equivalents on 12/31 (according to the consolidated balance sheet)	1,405	1,440

was 91 percent (previous year: 92 percent); see also the section "Broadly Defined Performance Indicators." The cash flow from investing activities was €-1,130 million (previous year: €-760 million). This included investments in intangible assets, property, plant and equipment, and financial assets of €-878 million (previous year: €-890 million). The purchase price payments for consolidated investments (net of acquired cash and cash equivalents) were €-556 million (previous year: €-213 million). Proceeds from the sale of subsidiaries and other business units and from the disposal of other non-current assets were €304 million (previous year: €343 million). Cash flow from financing activities was €-372 million (previous year: €-755 million). Dividends paid to shareholders of Bertelsmann SE & Co. KGaA remained unchanged at €-180 million (previous year: €-180 million). Dividends to non-controlling interests and further payments to partners in partnerships came to €-356 million (previous year: €-743 million). This includes a special dividend of €57 million (previous year: €373 million) as part of the increase of the shareholding in Penguin Random House. As of December 31, 2018, Bertelsmann had cash and cash equivalents of €1.4 billion (previous year: €1.4 billion).

Off-Balance-Sheet Liabilities

The off-balance-sheet liabilities include contingent liabilities and other financial commitments, almost all of which result from operating activities conducted by the divisions. Off-balance-sheet liabilities declined moderately year on year. The existing off-balance-sheet liabilities as of December 31, 2018, had no significant negative effects on the Group's net assets, financial position and results of operation for the past or future financial year.

Investments

Total investments including financial debt acquired of €27 million (previous year: €14 million) amounted to €1,461 million in the financial year 2018 (previous year: €1,117 million). Investments according to the cash flow statement amounted to €1,434 million (previous year: €1,103 million). As in previous years, the majority of the €325 million investment in property, plant and equipment (previous year: €360 million) stemmed from Arvato. Investments in intangible assets came to €295 million (previous year: €319 million) and were primarily attributable to RTL Group for investments in film rights and to BMG for the acquisition of music catalogs. The sum of €258 million was invested in financial assets (previous year: €211 million). These include, in particular, the investments of Bertelsmann Investments. Purchase price payments for consolidated investments (less acquired cash and cash equivalents) totaled €556 million in the reporting period (previous year: €213 million) and were attributable, among other things, to the acquisition of the US online education provider OnCourse Learning.

Balance Sheet

Total assets amounted to €25.3 billion as of December 31, 2018 (previous year: €23.7 billion). Cash and cash equivalents amounted to €1.4 billion (previous year: €1.4 billion).

Investments by Division

in € millions	2018	2017
RTL Group	262	308
Penguin Random House	43	80
Gruner + Jahr	54	38
BMG	107	157
Arvato	233	285
Bertelsmann Printing Group	36	40
Bertelsmann Education Group	484	78
Bertelsmann Investments	202	114
Total investments by division	1,421	1,100
Corporate/Consolidation	13	3
Total investments	1,434	1,103

Equity increased to €9.8 billion (previous year: €9.1 billion). This resulted in an increase of the equity ratio to 38.8 percent (previous year: 38.5 percent). Equity attributable to Bertelsmann SE & Co. KGaA shareholders was €8.5 billion (previous year: €7.8 billion). Provisions for pensions and similar obligations increased slightly to €1,738 million (December 31, 2017: €1,685 million). Gross financial debt increased to €5,337 million compared to €4,919 million as of December 31, 2017, due to the taking up of financial debt as reported in the section "Financing Activities." Apart from that, the balance sheet structure remained largely unchanged from the previous year.

Profit Participation Capital

Profit participation capital had a par value of €301 million as of December 31, 2018, which is unchanged from the previous year. If the effective interest method is applied, the carrying amount of profit participation capital was €413 million as of December 31, 2018 (previous year: €413 million). The 2001 profit participation certificates (ISIN DE0005229942) account for 94 percent of par value of profit participation capital, while the 1992 profit participation certificates (ISIN DE0005229900) account for the remaining 6 percent.

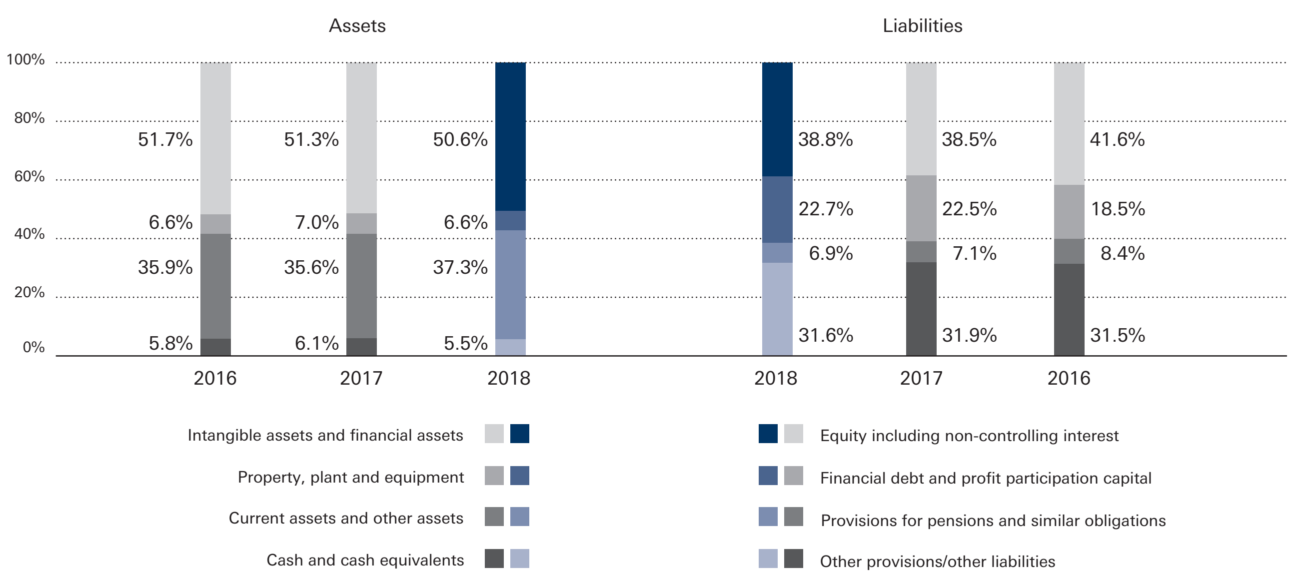
The 2001 profit participation certificates are officially listed for trading on the Regulated Market of the Frankfurt Stock Exchange. Their price is listed as a percentage of par value. The lowest closing rate of the 2001 profit participation certificates in the financial year 2018 was 316.00 percent in October; their highest was 352.85 percent in January.

Under the terms and conditions of the 2001 profit participation certificates, the payout for each full financial year is 15 percent of par value, subject to the availability of sufficient Group profit and net income at the level of Bertelsmann SE & Co. KGaA. These conditions were met in the past financial year. Accordingly, a payout of 15 percent of the notional value of the 2001 profit participation certificates will also be made for the financial year 2018.

The 1992 profit participation certificates, approved for trading on the Regulated Market in Frankfurt, only have a limited cash trade due to their low volume. Payouts on the 1992 profit participation certificates are based on the Group's return on total assets. As the return on total assets for the financial year 2018 was 6.83 percent (previous year: 7.73 percent), the payout on the 1992 profit participation certificates for the financial year 2018 will be 7.83 percent of their notional value (previous year: 8.73 percent).

The payout distribution date for both profit participation certificates is expected to be May 22, 2019. Under the terms and conditions of the profit participation certificates, the auditors appointed by Bertelsmann SE & Co. KGaA are responsible for verifying whether amounts to be distributed have been calculated correctly. The auditors of both profit participation certificates provide confirmation of this.

Balance Sheet



Performance of the Group Divisions

RTL Group

In 2018, RTL Group once again achieved record-level revenues; operating EBITDA decreased against the backdrop of high gains from disposals of buildings in the previous year, but increased on a comparable basis. As part of its Total Video strategy, RTL Group expanded its video-on-demand (VOD) services, primarily in Germany, France and the Netherlands, and saw a significant increase in subscriber numbers. At the same time, the group invested more in in-house productions and high-quality content for international distribution. Online video views on RTL Group's various digital platforms increased markedly in the year under review, to a total of 497 billion (previous year: 420 billion).

Despite negative exchange-rate effects, RTL Group's revenues rose by 2.1 percent to a new record level of €6.5 billion (previous year: €6.4 billion). The rapidly growing digital business, the content production arm Fremantle and RTL Nederland were the primary growth contributors. Digital revenues, which mainly comprise revenues from multi-platform networks, VOD offerings and ad-tech businesses, increased to €985 million in the year under review (previous year: €826 million) and thus contributed 15.1 percent (previous year: 13.0 percent) to RTL Group's total revenues. Operating EBITDA fell by 5.1 percent to €1.4 billion in 2018, after €1.5 billion in the previous year. Excluding the previous year's capital gain on disposal, the increase was 1.3 percent. The EBITDA margin was 21.5 percent, following 23.2 percent in the previous year.

Mediengruppe RTL Deutschland's revenues and earnings remained on a high level, although they slightly softened over the previous year. The declining German TV advertising market, but also major sports events such as the soccer World Cup and the Olympic Winter Games, all of which were broadcast on public television, contributed to this development. The family of channels' combined average audience share in the main target group was 27.5 percent (previous year: 28.9 percent). At the end of 2018, Mediengruppe RTL relaunched its VOD service TV Now, which increasingly offers local, exclusive content and online-first formats. Mediengruppe RTL Deutschland teamed up with partners to launch the European NetID Foundation and with it a single log-in standard.

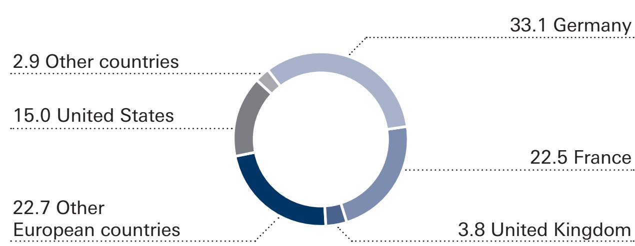
In France, Groupe M6's revenues were down slightly on the previous year, while operating EBITDA increased. In particular, M6 Web and a capital gain from the transfer of Girondins de Bordeaux players contributed to the increase in earnings. The soccer club was sold at the end of the year. Groupe M6 achieved a combined TV audience share of 21.4 percent in the main target group (previous year: 22.3 percent). In the summer of 2018, Groupe M6, together with partners, announced a joint online video platform called Salto.

RTL Nederland recorded higher advertising revenues in 2018, as well as growth in its subscription VOD platform Videoland and other digital businesses. Revenues and earnings of RTL Nederland increased.

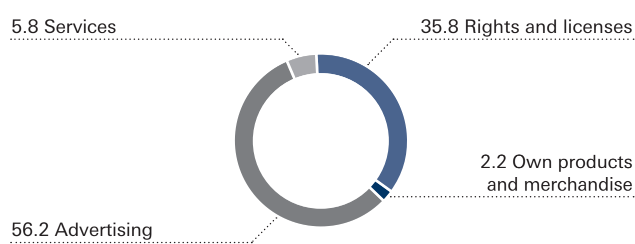
Fremantle reported substantial growth for 2018, driven by strong business performance in North America and Germany. The company was successful with numerous drama series such as "My Brilliant Friend" and "Deutschland 86," which met with great interest from international audiences.

On January 1, 2018, Bert Habets took over as sole CEO of RTL Group.

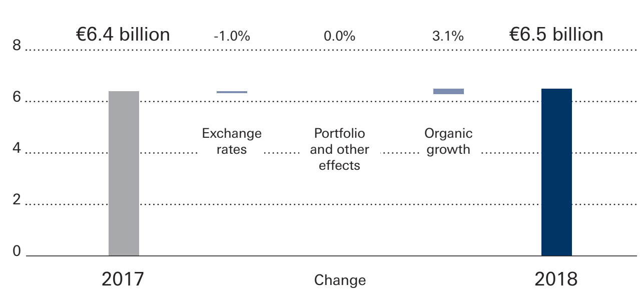
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Penguin Random House

Penguin Random House recorded organic revenue growth of 1.3 percent in the 2018 financial year. Negative exchange rates effects were more than offset by a strong bestseller performance, acquisitions and growth in digital audio downloads.

Including Verlagsgruppe Random House, the German publishing group wholly owned by Bertelsmann, the division increased its revenues by 1.9 percent to €3.4 billion in 2018 (previous year: €3.4 billion). The book group's operating EBITDA increased by 1.3 percent to €528 million (previous year: €521 million). The EBITDA margin was once again high, at 15.4 percent (previous year: 15.5 percent).

The strongest growth drivers were audiobooks, which grew substantially in all the core markets, as well as the publication of former US First Lady Michelle Obama's memoir "Becoming." The book, which was launched simultaneously in 31 languages in mid-November 2018 under the direction of Crown Publishing, stormed the bestseller lists and sold more than seven million copies across all formats in the six weeks to the end of the year.

Penguin Random House announced the increase of its stake in the Brazilian publishing house Companhia das Letras to 70 percent. The publishing portfolio was also expanded with the acquisition of the nonfiction publisher Rodale Books in the United States and the Hindi-language paperback publisher Hind Pocket Books in India. In Singapore, the group established its new Penguin Random House South East Asia unit. Penguin Random House also invested in the expansion of direct relationships with readers and continued to optimize its retail supply chain.

In the United States, the book publishing group placed 481 titles on the "New York Times" bestseller lists last year, 69 at number one. Besides the top title, "Becoming" by Michelle Obama, major sellers included "The President Is Missing" by Bill Clinton and James Patterson, "12 Rules for Life" by Jordan B. Peterson and "The Reckoning" by John Grisham. More than 11 million copies of children's book classics by Dr. Seuss were sold.

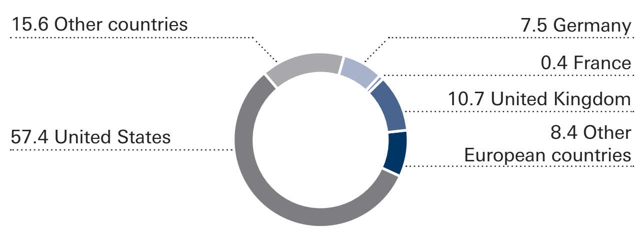
Penguin Random House UK recorded stable revenues in 2018, with growth in digital formats and license revenues. The group's British imprints published 39 percent of the Top 10 titles on the "Sunday Times" weekly bestseller lists. The year's bestsellers included "Becoming" by Michelle Obama and "12 Rules for Life" by Jordan B. Peterson, as well as "Jamie Cooks Italy" by Jamie Oliver and "Diary of a Wimpy Kid: The Meltdown" by Jeff Kinney.

Penguin Random House Grupo Editorial increased its revenues in 2018 and expanded its children's book and audiobook offering for the Spanish-speaking world. Its bestselling titles were "La desaparición de Stephanie Mailer" by Joël Dicker, "Tú no matarás" by Julia Navarro and "Sabotaje" by Arturo Pérez Reverte.

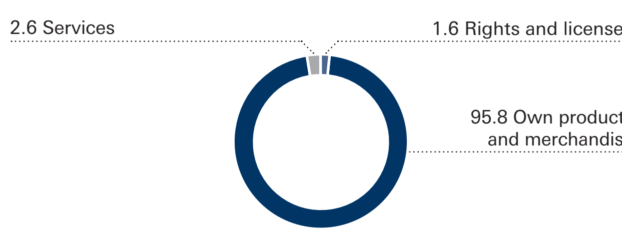
In Germany, Verlagsgruppe Random House maintained its market-leading position, growing both its revenues and earnings. The publishing group had 386 titles on the "Spiegel" bestseller lists, including 20 at number one. Their top-selling title was Michelle Obama's memoir, "Becoming." In 2018, the publishing group purchased Der Audio Verlag, thereby expanding its audiobook publishing program.

Numerous Penguin Random authors won prestigious awards, including Michael Ondaatje, who received the Golden Man Booker Prize for "The English Patient" as the best work of fiction among the 50 Man Booker Prize winners through five decades.

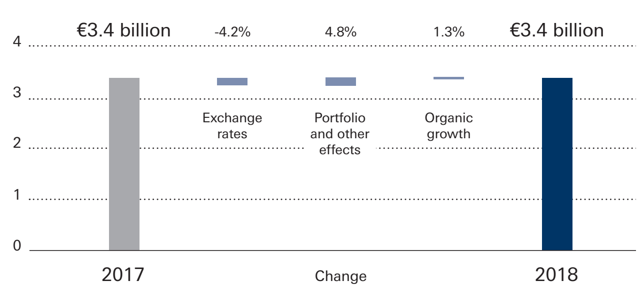
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Gruner + Jahr

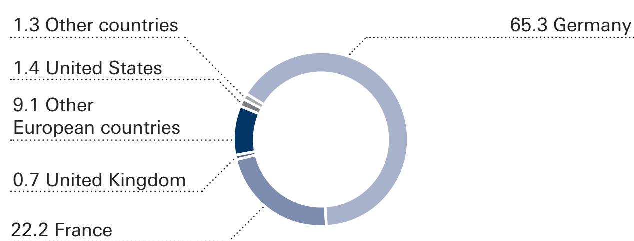
Gruner + Jahr continued its transformation. Revenues declined to €1.4 billion (previous year: €1.5 billion) due to portfolio adjustments; organically, revenues remained stable at the previous year's level. The digital revenue share was further expanded in the core countries. At €140 million (previous year: €145 million), operating EBITDA was moderately below the previous year. The EBITDA margin improved to 9.7 percent (previous year: 9.6 percent).

G+J once again grew both its revenues and earnings in Germany. The decline in the print advertising business and newsstand sales, which was moderate compared to the rest of the market, was offset by strong digital growth, the expansion of the licensing business and new magazine businesses. Territory, the agency for content-driven communications, strongly increased its revenues and earnings.

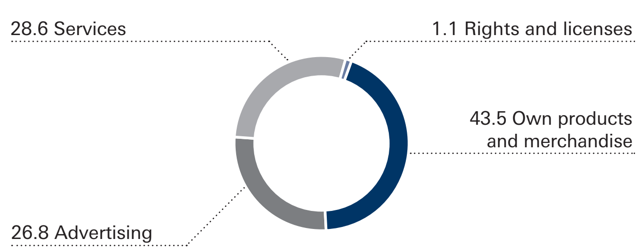
The growing digital business also made a major contribution to the good business performance in Germany. In the German core market, the digital share of total revenues rose to around 29 percent. This increase was mainly driven by the strong performance of the AppLike marketing platform, which more than doubled its revenues. Other positive contributors were the expansion of the licensing business, including at "Schöner Wohnen," and the growth of "Eat the World." In addition, G+J launched several innovative new magazines in 2018. Along with the gourmet magazine "B-Eat," G+J shaped and enriched the personality magazine genre with the addition of "Guido" and "Dr. v. Hirschhausen's Stern Gesund Leben." DDV Mediengruppe generated revenues on par with the previous year.

G+J France's business recorded a sharp drop in overall revenues and earnings. Besides the sale of the title "VSD," this was primarily due to the digital marketing platforms. The brand business, on the other hand, increased its earnings considerably despite declining print revenues. The digital offerings of the classic magazine brands – for example, "Voici," "Gala" and "Télé Loisirs" – again recorded high growth in revenues and earnings.

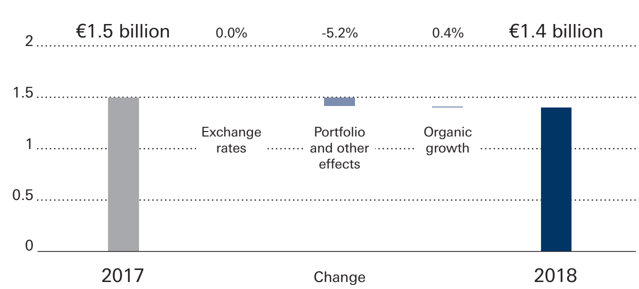
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



BMG

In 2018, 10 years after the new BMG opened for business, Bertelsmann's music subsidiary continued to see significant growth in its revenues and results, especially in its core markets: the United States, the United Kingdom and Germany. After years of growth mainly through acquisition, the focus increasingly shifted to organic growth. BMG benefited in particular from the expansion of its recordings business, which grew strongly during the reporting year; the music publishing business also recorded continuing growth. BMG artists and songwriters had numerous hits in the single and album charts in 2018.

Despite negative exchange rate effects, BMG's revenues increased by 7.5 percent to €545 million (previous year: €507 million). This was mainly due to organic growth. Operating EBITDA rose disproportionately by 17.3 percent to €122 million (previous year: €104 million), boosted by the increase in revenues and economies of scale. The EBITDA margin rose to 22.5 percent (previous year: 20.5 percent).

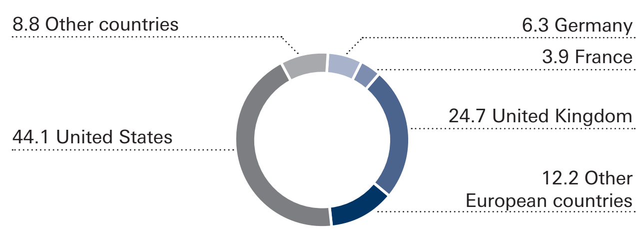
In the recordings business, where market growth is being driven by streaming, BMG was successful with artists including Lil Dicky, Jason Aldean, Kylie Minogue, The Prodigy and Kontra K, all with number-one albums or singles. BMG signed new contracts with artists including Dido, Marianne Faithfull, Lenny Kravitz and Adel Tawil. Keith Richards, whose publishing interests have been represented by BMG since 2013 along with Mick Jagger's, additionally signed a worldwide contract for his solo recordings. BMG acquired the world music label World Circuit Records and the US hip-hop and rap label RBC Records.

In the music publishing business, world tours by artists including Roger Waters and The Rolling Stones contributed to higher collections, as did BMG's administration of the Fremantle music catalog. Successful releases of works by songwriters including Jason Evigan, Bebe Rexha, George Ezra, Jess Glynne and The BossHoss added to business growth. Among the most prominent music publishing signings were Ringo Starr and JuiceWRLD. Lenny Kravitz and Yusuf a.k.a. Cat Stevens renewed their contracts with the company. BMG songwriters contributed to three of the five biggest summer hits on US radio.

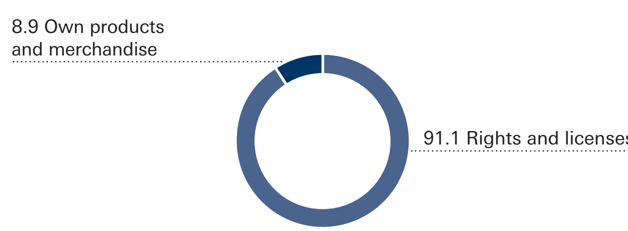
BMG Production Music, which provides music specifically for movies, video games and advertising, was expanded and now has a presence in eight territories thanks to new offices in Singapore and Hong Kong.

BMG's growing films business developed successfully with highlights including US distributor Magnolia Pictures acquiring North American rights to BMG's first major film production, a documentary about rock singer Joan Jett ("Bad Reputation"). In the books business, the number of titles published by BMG doubled compared to 2017, and included the illustrated books "Johnny Cash at Folsom and San Quentin" and "Dreaming of Dylan."

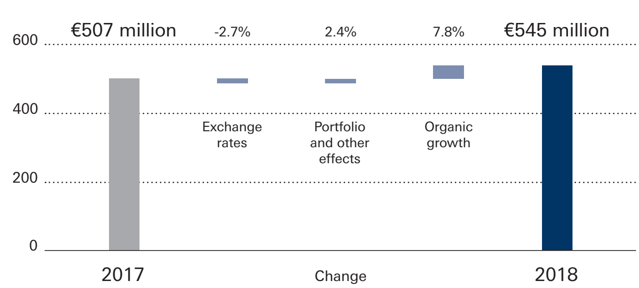
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Arvato

Arvato recorded a very strong business performance in 2018. Revenues from Bertelsmann's service businesses rose by 7.2 percent to €4.1 billion (previous year: €3.8 billion), and operating EBITDA improved by 17.8 percent to €377 million (previous year: €320 million). In particular, the drivers behind this extremely positive performance were the services provided for customers in high-tech and fashion by Arvato SCM Solutions, Arvato Financial Solutions' financial services businesses and Arvato Systems' innovative IT solutions. Arvato's EBITDA margin improved to 9.2 percent from 8.4 percent in the previous year.

After Bertelsmann had indicated at the end of January 2018 that it was reviewing strategic options for Arvato's CRM business, in September 2018 it was announced that Bertelsmann and Morocco's Saham Group were planning to merge their global CRM businesses. The new group of companies, Majorel, which took up operations on January 4, 2019, is one of the market leaders in Europe, Africa and the Middle East, and has a strong presence in America and Asia.

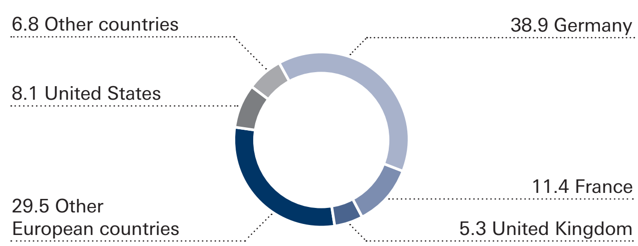
Arvato CRM Solutions' service businesses delivered a satisfactory overall performance in 2018, contributing to Arvato's revenue and earnings growth. The main growth driver was the expansion of the business with large, international clients in the high-tech and e-commerce sectors. In Germany, the contract with a large mobile service provider was renewed, and the global site network was built up and expanded.

The logistics services business within the SCM Solution Group experienced strong organic growth during the reporting period – especially as a result of new orders and clients gained in the fashion, high-tech and healthcare sectors in the previous year. In addition, important master contracts with customers were renewed. The existing worldwide network of locations was enhanced with the opening of new distribution centers and the expansion of existing ones.

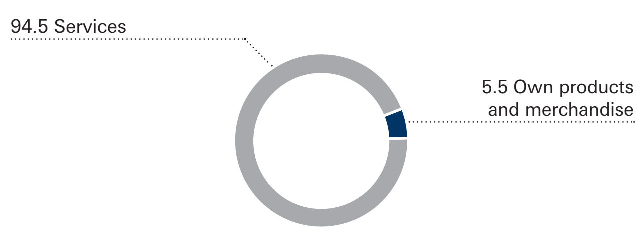
The financial services businesses bundled in Arvato Financial Solutions also developed positively during the reporting period. Revenues and earnings were up year on year. This was mainly supported by a good business performance in the GSA region. 3C Deutschland GmbH was acquired in the first half of 2018 with the aim of expanding and further automating the existing range of solutions for the German automotive insurance industry.

The IT services provider Arvato Systems grew organically and profitably in the reporting period. Business with its proprietary software solutions was successfully expanded and further developed, among other things with the addition of a major client from the United States. The IT services provider also made significant progress in transforming its existing business models, and was able to win numerous customer orders, especially in the fast-growing cloud business.

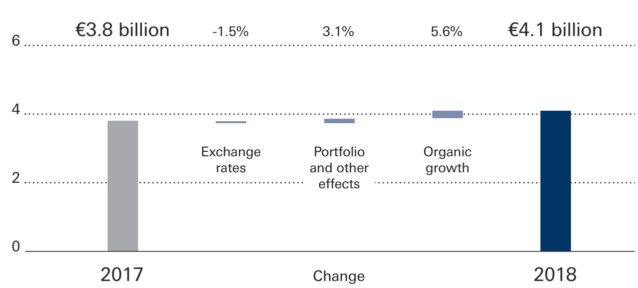
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Printing Group

The Bertelsmann Printing Group faced a very challenging market environment in the 2018 financial year: Paper price increases in particular led to restraint on the part of many customers. Against this backdrop, the Group recorded a -2.5 percent decline in revenues to €1,639 million (previous year: €1,681 million). Operating EBITDA shrank to €85 million (previous year: €118 million). The EBITDA margin amounted to 5.2 percent (previous year: 7.0 percent).

The Bertelsmann Printing Group's offset printing business did well in the 2018 financial year, despite a declining market. In the course of the year, Mohn Media was able to renew important customer contracts. GGP Media, the company specializing in print solutions for book publishers, posted slightly lower revenues than in the previous year due to weaker demand from several key customers. The BPG subsidiary Vogel Druck, which specializes in magazines and catalogs with small to medium-size print runs, was able to win new reference customers.

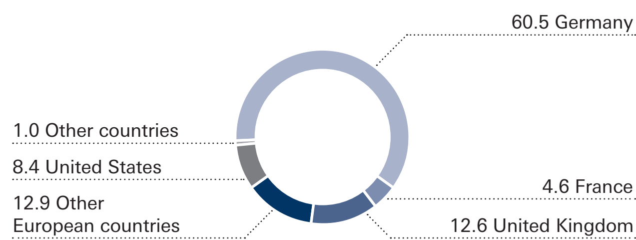
The gravure printing activities bundled in the Prinovis Group declined sharply in Germany during the reporting period, due to significantly lower volumes in mail-order and magazine publishing, and its revenues and EBITDA were significantly lower than in the previous year. The Group's gravure printing business in the United Kingdom developed as expected, despite challenging market conditions.

Demand in the US market was likewise subdued, especially in the first half of 2018; as a result, the business activities of the Bertelsmann Printing Group's US printing plants also declined. Contracts with two important major customers were secured long-term.

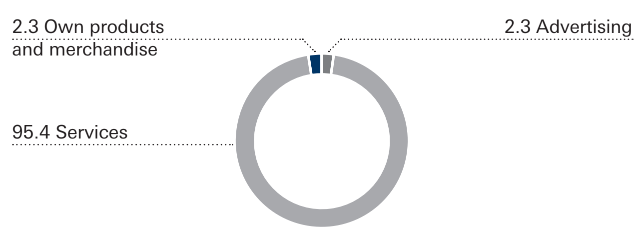
As expected, revenues in storage media replication fell against the backdrop of a declining market. Sonopress was able to gain market share with the acquisition of two major customers.

The print-related marketing services businesses assigned to the Bertelsmann Printing Group offer cross-channel communication services, in particular for the retail, e-commerce and advertising sectors. These businesses developed positively; among other things, new customers were acquired and important contracts renewed in the business segments of campaign management and the DeutschlandCard multipartner program. DeutschlandCard celebrated its 10th anniversary in the first half of 2018.

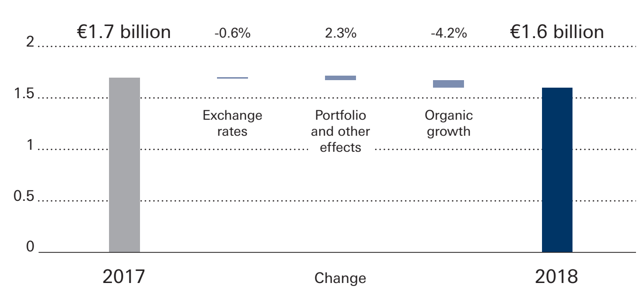
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Education Group

Driven by the rising demand for educational services, the Bertelsmann Education Group's activities saw continued growth in 2018. The Group markedly increased its revenues and operating result, and all of the division's companies continued the strategic development of their educational and service offerings.

Revenues from education businesses grew significantly in the 2018 financial year, rising by 36.4 percent to €258 million (previous year: €189 million). The full consolidation of the university services provider HotChalk, the continued growth of the e-learning provider Relias and the acquisition of the US education company OnCourse Learning were major contributors to this. As a result, the Bertelsmann Education Group's operating EBITDA improved significantly to €37 million (previous year: €3 million). The EBITDA margin was 14.5 percent (previous year: 1.8 percent).

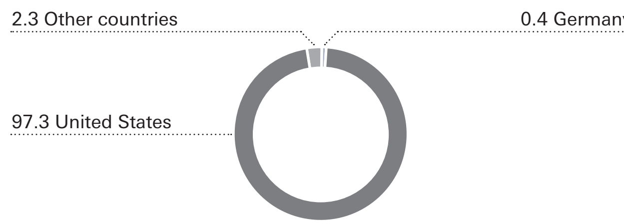
The Bertelsmann subsidiary Relias achieved double-digit organic growth during the reporting period and expanded its client base to more than 8.400 institutions whose employees enrolled in about 37.2 million online courses in 2018. In November, Bertelsmann acquired full ownership of the US online education provider OnCourse Learning from the private equity firm CIP Capital. It integrated the firm's healthcare training division into Relias, thereby significantly expanding the latter's acute-care activities.

The online learning provider Udacity further developed its range of courses and introduced new Nanodegree programs in fields including artificial intelligence. It also continued expanding its B2B business; at the end of 2018, more than 50 corporate clients were using Udacity services. Bertelsmann owns a significant stake in the Silicon Valley-based company.

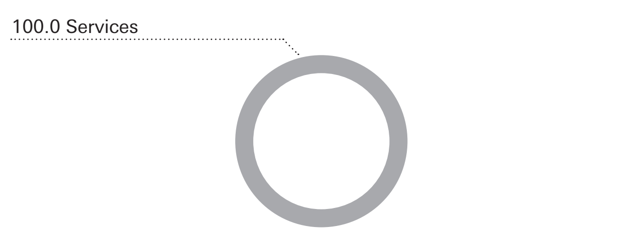
During the period under review, the Bertelsmann Education Group also acquired a majority stake in HotChalk, a US provider of education technology services. The company recorded a significant increase in earnings and significantly expanded its partnership with its largest customer. The number of students enrolled in courses supported by HotChalk also rose.

Alliant International University, which specializes in psychology and education, recorded an increase in the number of students in the past year and continued building its digital learning portfolio.

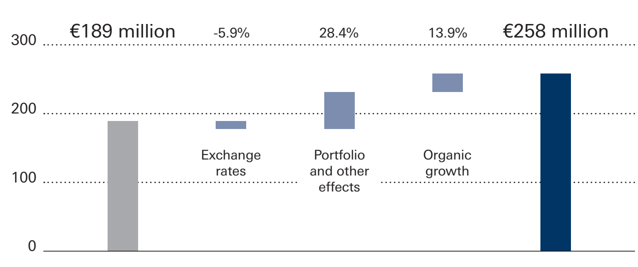
Revenues by Region in percent (without intercompany revenues)



Revenues by Category in percent



Revenue Breakdown



Bertelsmann Investments

In the 2018 financial year, Bertelsmann Investments once again expanded its global network of shareholdings in innovative start-ups. Bertelsmann Asia Investments (BAI), Bertelsmann Brazil Investments (BBI), Bertelsmann India Investments (BII) and Bertelsmann Digital Media Investments (BDMI) made approximately 60 new and follow-on investments during the reporting period. At the same time, the funds exited from several shareholdings. As a result, at year-end Bertelsmann held shares in 189 companies through its corporate funds.

Bertelsmann Investments once again made a significant positive contribution to Group profit in the year under review, primarily due to increases in the value of investments and gains on disposals. EBIT amounted to €96 million (previous year: €141 million).

BAI made 23 new investments, including in the Chinese music streaming platform NetEase Cloud Music. Follow-on investments were made in 16 companies, including the fitness app Keep and the supply chain financing service provider Linklogis. As in 2017, four BAI holdings went public in the period under review: the used-car portal Tuanche, the discount platform Meituan Dianping, the fashion e-commerce platform Mogu, and the tech company Xiaomi, in which the fund owns an indirect stake. In the 10 years of its existence, BAI has supported the IPOs of 10 shareholdings.

In Brazil, additional investments were made in the focus area of education. In April, Bertelsmann acquired a majority stake in Afferolab, one of the country's leading providers of corporate training, through BBI and further increased this shareholding in December. The group also expanded its education network in the healthcare sector in partnership with Crescera Investimentos.

During the reporting period, BII acquired stakes in the Indian company Licious, a direct-to-consumer food platform, and in the logistics platform Lets Transport. Follow-on investments were also made in the social media portal Roposo and in Eruditus Executive Education, a continuing training company that develops courses in partnership with international Ivy League colleges. In addition, BII successfully managed its first two divestments, from Saavn and IndiaProperty.

BDMI made 17 new and follow-on investments, including in the network FloSports, which specializes in live broadcasts of sporting events.

Since 2012, the four funds have invested nearly €800 million in digital companies. Returns from the disposal of investments amounted to more than €400 million in the same period.

General Statement by Company Management on the Economic Situation

Over the financial year 2018, Bertelsmann's businesses posted overall positive development. The Group improved its growth profile with the continuing organic and acquisitive expansion of its growth platforms. Bertelsmann also systematically continued its transformation into a faster-growing, more digital, more international and more diversified Group.

Group revenues in the reporting period rose moderately by 2.8 percent to €17.7 billion from €17.2 billion in the previous year and were therefore in line with estimates (outlook in 2017 Annual Report: moderate increase in revenues). Organic growth was 2.7 percent. Operating EBITDA at €2,586 million was only slightly below (by 1.9 percent) the previous year's high figure of €2,636 million, which included material capital gains resulting from strategic real estate transactions (outlook in the 2017 Annual Report: moderate decline in operating EBITDA). At €121 million, the BVA used for Group management was strongly below the previous year's figure of €163 million (outlook in 2017 Annual Report: strongly declining BVA). The development reflects the increase in the average level of capital invested and the lower operating result.

In the financial year 2018, steady efforts continued to focus on implementing the strategy. In addition to the focus at RTL Group on local content and in-house productions and on new magazines at Gruner + Jahr, the merging of CRM businesses at Bertelsmann and the Saham Group, effective as of 2019, made a contribution to strengthening core businesses. As part of the digital transformation, RTL Group continued to expand its video-on-demand offerings and also merged the online advertising marketers SpotX and SmartClip. Verlagsgruppe Random House strengthened its offerings in the audio market with the acquisition of the audiobook publisher DAV, and Gruner + Jahr continued to develop the app discovery platform AppLike. Growth platforms were expanded, especially in the area of education with the acquisition of the US online education provider OnCourse Learning and the acquisition of a majority stake in the US university services provider HotChalk. Bertelsmann also made progress in China, India and Brazil with a number of new and follow-on investments through the funds grouped under Bertelsmann Investments.

Net assets and financial position remain solid despite the increased economic debt. As a result of the acquisition of OnCourse Learning in the fourth quarter of 2018, the leverage factor during the reporting period was 2.7, above the previous year's level. The maturity profile of the capital market financings was further optimized through the issue made in the financial year 2018. As of December 31, 2018, the cash and cash equivalents reported at €1.4 billion (December 31, 2017: €1.4 billion) represent sufficient liquidity. The ratings agencies Moody's and S&P continued to rate Bertelsmann as "Baa1" and "BBB+," respectively, with a stable outlook.

Alternative Performance Measures

In this Combined Management Report, the following Alternative Performance Measures, which are not defined in accordance with IFRS, are used to explain the results of operations and/or net assets and financial position. These should not be considered in isolation but as complementary information for evaluating Bertelsmann's business situation and are differentiated in terms of strictly defined and broadly defined key performance indicators, in the same way as the value-oriented management system.

The organic growth is calculated by adjusting the reported revenue growth for the impact of exchange rate effects, corporate acquisitions and disposals as well as other effects. When determining the exchange rate effects, the functional currency that is valid in the respective country is used. The other effects include changes in methods and reporting, for example. These chiefly involve changes in presentation in the income statement due to application of the new IFRS 15 (further details are presented in the notes to the Consolidated Financial Statements in the section "Impact of New Financial Reporting Standards").

Operating EBITDA

Operating EBITDA is determined as earnings before interest, tax, depreciation, amortization and impairment losses and is adjusted for special items. The adjustments for special items serve to determine a sustainable operating result that could be repeated under normal economic circumstances and is not affected by special factors or structural distortions. These special items primarily include impairment losses and reversals

Organic Revenue Growth

in percent	2018	2017
Organic revenue growth	2.7	1.7
Exchange rate effects	(1.7)	(1.0)
Portfolio and other effects	1.8	0.7
Reported organic revenue growth	2.8	1.4

Operating EBITDA

in € millions	2018	2017
EBIT (profit or loss before interest and taxes)	1,620	1,896
Special items	296	83
attributable to: RTL Group	107	10
attributable to: Penguin Random House	44	39
attributable to: Gruner + Jahr	77	48
attributable to: BMG	12	10
attributable to: Arvato	95	28
attributable to: Bertelsmann Printing Group	5	5
attributable to: Bertelsmann Education Group	50	50
attributable to: Bertelsmann Investments	(101)	(144)
attributable to: Corporate/Consolidation	7	37
Amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment	847	691
Adjustments on amortization/depreciation, impairment losses and reversals on intangible assets and property, plant and equipment included in special items	(177)	(34)
Operating EBITDA	2,586	2,636

of impairment losses, fair value measurements, restructuring expenses and/or results from disposals of investments. This means that operating EBITDA is a meaningful performance indicator. Disposal effects of strategic real estate transactions are not included in the special items.

BVA

BVA measures the profit realized above and beyond the appropriate return on invested capital. This form of value orientation is reflected in strategic investment, portfolio planning and the management of Group operations and, together with qualitative criteria, provides the basis for measuring the variable portion of management remuneration. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. NOPAT, which is used to calculate BVA, is determined by deducting depreciation and amortization, provided that they are not included in special items, and a flat 33 percent tax. Cost of capital is the product of the weighted average cost of capital (WACC) and the average level of capital invested. The uniform WACC after taxes is 8 percent. The average invested capital is calculated quarterly on the basis of the Group's operating assets less non-interest-bearing operating liabilities. In addition, 66 percent of the net present value of the operating leases plus other commitments from technical broadcasting facilities are included in the calculation of invested capital. BVA is determined without taking into account the Bertelsmann Investments division since business performance is represented primarily on the basis of EBIT. Accordingly, the method does not include a NOPAT contribution from this division. To maintain consistency, the invested capital will be adjusted for the Bertelsmann Investment division; hence, capital costs will be neutralized.

BVA

in € millions	2018	2017
Operating EBITDA	2,586	2,636
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(670)	(657)
Operating EBIT	1,916	1,979
Flat taxes (33 percent)	(632)	(653)
NOPAT (Net Operating Profit After Tax)	1,284	1,326
Average invested capital	15,296	15,063
Cost of capital (8 percent)	1,224	1,205
Correction Bertelsmann Investments	61	42
BVA	121	163

Cash Conversion Rate

in € millions	2018	2017
Cash flow from operating activities	1,437	1,605
Income taxes paid	534	434
Change in provisions for pensions and similar obligations	113	121
Investments in intangible assets and property, plant and equipment (less proceeds from the sale of non-current assets)	(529)	(489)
Further adjustments	198	151
Operating free cash flow	1,753	1,822
Operating EBITDA	2,586	2,636
Amortization/depreciation, impairments/reversals of intangible assets and property, plant and equipment not included in special items	(670)	(657)
Operating EBIT	1,916	1,979
Cash Conversion Rate (in percent) Operating free cash flow / Operating EBIT	91	92

Cash Conversion Rate

The cash conversion rate serves as a measure of cash generated from business activities and is calculated as the ratio of operating free cash flow to operating EBIT. The operating free cash flow is determined on the basis of the cash flow from operating activities as reported in the consolidated cash flow statement, whereby the impact of paid income taxes and the change in provisions for pensions and similar obligations on cash flow from operating activities is offset. Operating free cash flow is also reduced by investments in intangible assets and property, plant and equipment or, if applicable, increased by proceeds from the sale of non-current assets. Further adjustments are made to ensure an allocation of capital flows to the relevant periods and to offset the impact of payment flows resulting from special items on the operating free cash flow in a way that is methodically consistent with the operating EBITDA. Further adjustments in the financial year 2018 mainly reflected the impact of restructuring measures on payments. The operating EBITDA is used to calculate the operating EBIT by deducting amortization and depreciation, provided that these are not included in special items. The Group aims to maintain a cash conversion rate of 90 percent to 100 percent as a long-term average.

Economic Debt

Net financial debt is calculated on the basis of gross financial debt, which comprises the balance sheet items current and non-current financial debt minus cash and cash equivalents. Economic debt is defined as net financial debt less the 50 percent par value component of the hybrid bonds plus provisions for pensions, profit participation capital and the net present value of operating leases. In calculating economic debt, the hybrid bonds are accounted for at 50 percent as both bonds are classified by the rating agencies as 50 percent equity. Economic debt is modified for the purposes of calculating the leverage factor.

Economic Debt

in € millions	2018	2017
Gross financial debt	5,337	4,919
Less cash and cash equivalents	(1,405)	(1,440)
Net financial debt	3,932	3,479
Less 50 percent of the par value of the hybrid bonds	(625)	(625)
Provisions for pensions	1,738	1,685
Profit participation capital	413	413
Net present value of operating leases	1,161	1,261
Economic debt	6,619	6,213

Leverage Factor

in € millions	2018	2017
Economic debt	6,619	6,213
Modifications	136	125
Economic debt^{LF}	6,755	6,338
Operating EBITDA	2,586	2,636
Modifications	(108)	(99)
Operating EBITDA^{LF}	2,478	2,537
Leverage Factor: Economic debt^{LF} / Operating EBITDA^{LF}	2.7	2.5

Leverage Factor

One of the financial targets is a dynamic leverage factor calculated as the ratio of economic debt to operating EBITDA; this factor should not regularly exceed the defined maximum of 2.5. In determining the leverage factor, the economic debt and the operating EBITDA are modified to enable financial management that corresponds to the Group's structure and its tolerable indebtedness. The modifications in regard to the economic debt largely relate to cash and cash equivalents, which are tied up in the Group while the modifications in regard to the operating EBITDA address the Group's structure and its co-shareholder shares. The leverage factor determined in this way is thus always more conservative than the figure that would be obtained using only the items recognized in the balance sheet.

Significant Events after the Balance Sheet Date

Effective January 4, 2019, all worldwide Customer Relationship Management businesses at Bertelsmann and the Saham Group in Morocco were merged. Each partner holds 50 percent of the shares in the new company Majorel, which is one of the market leaders in Europe, Africa and the Middle East, and has a strong presence in America and Asia. The contribution of the CRM businesses from Saham is recognized in the Bertelsmann Consolidated Financial Statements as a business combination within the meaning of IFRS 3 and will be fully consolidated by Bertelsmann Group from the financial year 2019 onward.

On February 1, 2019, Groupe M6 (part of RTL Group) announced its plans to acquire the TV activities of Groupe Lagardère. The two French companies are conducting exclusive negotiations. As a result of this transaction, Groupe M6 would expand its family of channels with the market leader in French children's television, Gulli, among other things.

Risks and Opportunities

Risk Management System

The purpose of the Bertelsmann risk management system (RMS) is the early identification and evaluation of, as well as response to, internal and external risks. The internal control system (ICS), an integral component of the RMS, monitors the effectiveness of the risk response measures that have been implemented. The aim of the RMS is to identify, at an early stage, material risks to the Group so that risk response measures can be taken and controls implemented. Risks are possible future developments or events that could result in a negative deviation from the outlook or objectives for Bertelsmann. In addition, risks can negatively affect the achievement of the Group's strategic, operational, reporting and compliance-related objectives and its reputation.

The risk management process is based on the internationally accepted frameworks of the Committee of Sponsoring Organizations of the Treadway Commission (COSO Enterprise Risk Management – Integrated Framework and Internal Control – Integrated Framework, respectively) and is organized in subprocesses of identification, assessment, response, control, communication and monitoring. A major element of risk identification is a risk inventory that lists significant risks year by year, from the profit center level upward. These risks are aggregated step by step at the division and Group levels. This ensures that risks are registered where their impact would be felt. There is also a Group-wide reassessment of critical risks every six months and quarterly reporting in case the risk situation has changed. Ad hoc reporting requirements ensure that significant changes in the risk situation during the course of the year are brought to the attention of the Executive Board. The risks are compared to risk management and control measures to determine the net risk position. Both one- and three-year risk assessment horizons are applied to enable the timely implementation of risk response measures. The basis for determining the main Group risks is the three-year period, similar to medium-term corporate planning. Risk assessment is the product of the estimated negative impact on Group free cash flow should the risk occur and the estimated probability of occurrence. Risk monitoring is conducted by Group management on an ongoing basis. The RMS, along with its component ICS, is constantly undergoing further development and is integrated into ongoing reporting to the Bertelsmann Executive Board and Supervisory Board. Corporate Risk Management Committee meetings are convened at regular intervals to ensure compliance with statutory and internal requirements.

The Group auditors inspect the risk early-warning system for its capacity to identify developments early on that could threaten the existence of Bertelsmann SE & Co. KGaA according to section 91(2) of Germany's Stock Corporation Act (AktG) and then report their findings to the Supervisory Board of Bertelsmann SE & Co. KGaA. Corporate Audit conducts ongoing reviews of the adequacy and functional capability of the RMS in all divisions apart from RTL Group. RTL Group's RMS is evaluated by the respective internal auditing department and by the external auditor. Any issues that are identified are promptly remedied through appropriate measures. The Bertelsmann Executive Board defined the scope and focus of the RMS based on the specific circumstances of the company. However, even an appropriately designed and functional RMS cannot guarantee with absolute certainty that risks will be identified and controlled.

Accounting-Related Risk Management System and Internal Control System

The objectives of the accounting-related RMS and ICS are to ensure that external and internal accounting are proper and reliable in accordance with applicable laws and that information is made available without delay. Reporting should also present a true and fair view of Bertelsmann's net assets, financial position and results of operation. The following statements pertain to the Consolidated Financial Statements (including the notes to the sections "Consolidated Financial Statements" and "Combined Management Report"), interim reporting and internal management reporting.

The ICS for the accounting process consists of the following areas: The Group's internal rules for accounting and the preparation of financial statements (e.g., IFRS manual, guidelines and circulars) are made available without delay to all employees involved in the accounting process. The Group financial statements are prepared in a reporting system that is uniform throughout the Group. Extensive automatic system controls ensure the consistency of the data in the financial statements. The system is subject to ongoing development through a documented change process. Systematized processes for coordinating intercompany transactions serve to prepare the corresponding consolidation steps. Circumstances that could lead to significant misinformation in the Consolidated Financial Statements are monitored centrally by employees of Bertelsmann SE & Co. KGaA and by RTL Group (for the preconsolidated subgroup) and then verified by external experts as required. Central contact persons from Bertelsmann SE & Co. KGaA and the divisions are also in continuous contact with local subsidiaries to ensure IFRS-compliant accounting as well as compliance with reporting deadlines and obligations. These preventive measures are supplemented by specific controls in the form of analyses by the Corporate Financial Reporting department of Bertelsmann SE & Co. KGaA and RTL Group (for the preconsolidated subgroup). The purpose of such analyses is to identify any remaining inconsistencies. The controlling departments at the Group and division levels are also integrated into the internal management reporting. Internal and external reporting are reconciled during the quarterly segment reconciliation process. The further aim in introducing a globally binding control framework for the decentralized accounting processes is to achieve a standardized ICS format at the level of the local accounting departments of all fully consolidated Group companies. The findings of the external auditors, Corporate Audit and the internal auditing department of RTL Group are promptly discussed with the affected companies and solutions are developed. An annual self-assessment is conducted to establish reporting on the quality of the ICS in the key fully consolidated Group companies. The findings are discussed at the divisional level. Like the RMS, each ICS cannot guarantee with absolute certainty that significant misinformation in the accounting process can be prevented or identified.

Corporate Audit and the internal auditing department of RTL Group evaluate the accounting-related processes as part of their auditing work. As part of the auditing process, the Group auditor also reports to the Audit and Finance Committee of the Bertelsmann SE & Co. KGaA Supervisory Board about any significant vulnerabilities of the accounting-related ICS that were identified during the audit and the findings regarding the risk early-warning system.

Major Risks to the Group

Bertelsmann is exposed to a variety of risks. The major risks to Bertelsmann identified in the risk reporting are listed in order of priority in the table below. Details on information security risks can be found in a separate chapter further below. In line with the level of possible financial loss, the risks are classified as low, moderate, significant, considerable or endangering for the purposes of risk tolerability. The risk inventory carried out did not identify any risks that would be classified as considerable or endangering.

Given the diversity of the businesses in which Bertelsmann is active and the corresponding diversity of risks to which the various divisions are exposed, the key strategic and operational risks to the Group that have been identified are specified below. Risks from acquisitions and information

Overview of Major Risks to the Group

Priority	Type of risk	Risk Classification Low	 Moderate	 Significant	 Considerable	 Endangering
1	Audience and market share			■		
2	Customer risks			■		
3	Changes in market environment			■		
4	Pricing and discounting			■		
5	Supplier risks			■		
6	Cyclical development of economy			■		
7	Legal and regulatory risks		■			
8	Employee-related risks		■			
9	Financial market risks	■				
10	Technological challenges	■				

Risk classification (potential financial loss in three-year period): low: < €50 million, moderate: < €100 million, significant: < €250 million, considerable: < €500 million, endangering: > €500 million.

■ Existing risks

security risks were identified as the primary risks and are therefore described separately. This is followed by an outline of legal and regulatory risks and financial market risks. These risks are largely managed at the corporate level.

Strategic and Operational Risks

The expansion of the global economy slowed somewhat in 2018. Looking forward it is expected that economic growth will return to normal. Nonetheless, Bertelsmann's business development is still subject to certain risks. In particular, a disorderly withdrawal of the United Kingdom from the EU or further escalation of international trade conflicts could adversely impact Bertelsmann's economic environment and thus increase the risk from economic developments. Since the Brexit decision, Bertelsmann has been continuously monitoring the exit process to identify any risks at an early stage. A Group-wide Brexit Taskforce was established to coordinate information. In the short to medium term, other significant Group risks include loss of audience and market share, customer risks, changes in the market environment, pricing and margin risks, supplier relationship risks and risks associated with economic development. How these risks develop depends to a large extent on changes in customer behavior due to factors such as the continued digitization of media, the development and implementation of products and services by competitors, bad debt losses, and default and interference along the production chains in individual sectors, such as IT. Legal and regulatory risks as well as employee-related risks are moderate risks for Bertelsmann, while financial market risks and risks from future technological challenges in the three-year period under review are classified as low.

Increasing competition and constant change, particularly in the digital environment, are resulting in a stronger fragmentation of RTL Group's markets as audiences will have more choice (e.g., through online platforms) and, at the same time, the market-entry barriers are being lowered. The possible risks of this for RTL Group are decreasing audience and advertising market shares of its advertising-financed channels and therefore, ultimately, lower revenues. To counter these risks, RTL Group is continuously revising and developing the channels and program strategies. By linking traditional, linear offerings with new digital business models and by strengthening existing investments in the online video market and in advertising technologies, RTL Group counters risks from digitization while actively influencing this development. Increasing competition in the area of program acquisition and TV production and the growing dependence on individual production companies, coupled with the risk of potential cost increases, could also impact RTL Group's ability to generate revenues. This risk is being reduced by expanding the program share of in-house productions – in particular local content. Furthermore, economic development directly impacts the TV advertising markets and therefore RTL Group's revenue. This risk is being countered by focusing on developing non-advertising revenue streams, for example, distribution revenues from platform operators. To reduce the risk of customer losses, the aim is to establish long-term customer relationships.

Falling e-book sales constitute one risk for Penguin Random House, triggered in particular by falling sales prices. Declining revenues from physical books, due to declining sales volumes in brick-and-mortar book retail, is another risk. Penguin Random House is countering these risks by introducing differentiated pricing, increasing online sales of physical books, and continuously examining alternative selling and marketing options. Any risk of bad debt loss is being limited through debtor management and in some cases through credit insurance. In addition to the risk of cost increases, Penguin Random House is finding itself exposed to risks from general economic uncertainty, which could lead to lower sales. The risks are addressed through careful management of supplier relationships and innovative marketing activities, and by maintaining a flexible cost structure that allows for a quick response in the event of an economic downturn.

The risk of a deterioration of the overall economic environment and the resulting declines in advertising and circulation revenues, as well as the continuously changing conditions in the digital business, represent significant challenges for Gruner + Jahr. A changing market environment, marked by product innovations and increased consolidation of agencies and marketers, is confronted with a widespread decrease in demand for print products, which as a result of pressure on prices and conditions can lead to lower margins. Furthermore, there is the risk of losing key customers as advertising customers could switch to other media, notably digital media. The risks are being countered by cost and customer management; the development of new, in particular digital, forms of offerings; and product, price and quality improvements.

Risks that affect BMG primarily concern the client portfolio (extending contracts with artists/authors and distribution partners), its monetarization (physical and digital distribution partners), corporate growth (integration of acquisitions) and the scalability of the company (including technical platform and organization). Market risks are addressed through high revenue diversification (clients/catalogs, business segments, regions) and contractual protection clauses (securing the recouping of advances).

Arvato sees itself as particularly exposed to risks from customer and supplier relationships. The potential loss of key customers is being countered through contracts offering comprehensive service packages with simultaneously flexible cost structures. On the supplier side there are risks associated with the availability of services. Countermeasures include an active exchange with existing suppliers and entering into long-term framework agreements. Technological trends arising from digitization and ongoing automation could in some cases damage the business model and competitiveness in individual customer segments. New competitors entering the market could intensify the competitive pressure and lead to lower margins. By developing the range of services, the aim is to improve the competitive position and to increase customer loyalty through integrated solutions. A worsening of the economic environment could result in declining revenues and thus lower margins, which would necessitate cost-cutting measures and capacity downsizing. Broad diversification across regions and sectors helps to reduce this risk.

For Bertelsmann Printing Group, customer risks are the most significant risks. In addition, price and margin pressures result from a market environment that is characterized by overcapacity. Along with the dependence on a handful of suppliers, there are further risks on the supplier side associated with rising raw material prices – particularly for paper. Furthermore, deterioration in the economic environment also may lead to declining circulations. Similarly, the increasing use of digital media is accelerating the decline in circulation, particularly in the magazine segment. These risk minimization strategies are based, in particular, on the expansion of innovative print services, constantly optimizing cost structures and monitoring markets on an ongoing basis.

For the Bertelsmann Education Group, increasing competition with other online providers, particularly in the US healthcare market, can lead to growing price and margin pressure and impact the planned growth targets. These risks are being countered in particular through strategic partnerships and marketing measures.

The key risks for Bertelsmann Investments consist of falling portfolio valuations and a lack of exit opportunities. These risks are being addressed through a standardized investment process and continuous monitoring of investments.

The increasing pace of change in the markets and in Bertelsmann's business segments means that employees will need to be more willing and able to adapt in the future. There are also continuing demographic risks that impact the recruitment, development and retention of talent as a result of shifts in the age distribution of the workforce. To counteract this, employees are being offered further individual education, comprehensive health programs, a competitive salary and flexible working models. Bertelsmann is also enhancing its talent management by pushing forward on digitization of the recruiting process and making it easier for employees to switch jobs within the Group by harmonizing processes and structures.

Acquisition-Related Risks

The Group strategy focuses on acquisitions of businesses and organic growth. The risk of potential mistakes when selecting investments and the allocation of investment funds is limited by means of strict investment criteria and processes. Acquisitions present both opportunities and risks. For example, integration into the Group requires one-time costs that are usually offset by increased benefits in the long term, thanks to synergy effects. The risks here are that the integration costs may be higher than expected or the predicted level of synergies may not materialize. The integration processes are therefore being monitored by management on an ongoing basis.

Information Security Risks

For Bertelsmann, the ability to provide information in a timely, complete, error-free and confidential way, and to process it without disruptions, is crucial to its success, and is becoming increasingly important. The hurdles to this ability are internal processes that are often not yet standardized, comparatively fragmented IT system landscapes and, as digitization of business progresses, a bigger playing field for cybercrime whose players are becoming more and more professional. Bertelsmann has addressed this tougher operating environment at the management level by operating an Information Security Management System (ISMS, based on ISO 27001) for structured management of cyber risks across the Group and to monitor compliance with minimum Group standards. In order to have access both to modern cybersecurity technologies and to specialist expertise in emergencies, Bertelsmann maintains a network of external partners and is a member of the German Cyber Security Organization (Deutsche Cyber-Sicherheitsorganisation: DCSO). Furthermore, Bertelsmann has also responded to the increased threat by introducing specific measures, such as a Group-wide platform to identify gaps and security issues in all systems worldwide that are connected to the Internet. An indicative assessment of risks to information security was conducted in the fiscal year 2018 on the basis of the method used to assess operative Group risks. The results indicate that information security risks are moderate, analogous to the categorization of major Group risks.

Legal and Regulatory Risks

Bertelsmann, with its worldwide operations, is exposed to a variety of legal and regulatory risks concerning, for example, litigation or varying interpretations of tax assessment criteria. Bertelsmann has television and radio operations in several European countries that are subject to regulation. In Germany, for example, the media is subject to oversight by the Commission on Concentration in the Media. Bertelsmann Group companies occupy leading market positions in many lines of business and may therefore have limited potential for growth through acquisition due to antitrust legislation. Moreover, the education activities are subject to regulatory provisions of government authorities and accreditation bodies. Other risks include litigation relating to company acquisitions and disposals, which mainly relate to different interpretations of contract components, as well as increased data protection regulations leading to growing challenges, especially for data-based business models. These risks are being continuously monitored by the relevant divisions within the Group.

Several subsidiaries of RTL Group are being sued by the broadcaster RTL 2 Fernsehen GmbH & Co. KG and its sales house El Cartel Media GmbH & Co. KG before the regional court in Düsseldorf, Germany, seeking disclosure of information to substantiate a possible claim for damages. The proceedings follow the imposition of a fine in 2007 by the German Federal Cartel Office for abuse of market dominance with regard to discount scheme agreements ("share deals") granted by IP Deutschland GmbH and SevenOne Media GmbH to media agencies. The German Federal Cartel Office argued that these discounts would foreclose the advertising market for small broadcasters. In 2014, the district court of Düsseldorf decided to order an expert report. The expert concluded in February 2018 that the likelihood of damages cannot be proven with certainty. In July 2018, RTL II filed a motion claiming that the expert was not impartial. IP Deutschland has rejected the motion for lack of impartiality as unfounded. The court has not made a decision. Similar proceedings from other small broadcasters, initiated in different courts, were unsuccessful or have been withdrawn.

In June 2016, the main competitors of Fun Radio alleged that a host of the morning show had influenced Fun Radio's results by encouraging his listeners to give favorable treatment to Fun Radio in the Médiamétrie surveys. In response to these allegations, Médiamétrie decided to remove Fun Radio from its surveys. Following a legal procedure initiated by Fun Radio, Médiamétrie was required to reinstate Fun Radio in the audience results surveys as of September 2016. Nevertheless, Médiamétrie decided to lower Fun Radio's audience results in its published surveys, alleging the existence of a "halo effect." Following a procedure initiated by Fun Radio, a judicial expert was appointed in December 2017 to examine Médiamétrie's assessment of the alleged halo effect, and the judicial expert's final report is expected in the second quarter of 2019. As of September 2017, Médiamétrie has again published the full audience results for Fun Radio. In parallel to the above procedure, the main competitors of Fun Radio also filed, in December 2016, a claim for damages, claiming unfair competition, but this procedure is suspended until the end of the judicial expertise. In the meantime, four of the six claimants withdrew their claim from the proceedings.

On February 22, 2018, the Spanish Competition Authority (CNMC) communicated to Atresmedia the opening of a proceeding for sanctions in relation to possible practices restricting competition prohibited by article 1 of the Spanish Competition Act. On February 6, 2019, the CNMC notified the Statement of Objections in which it assumes proven that specific commercial practices by Atresmedia are restrictive of competition. The directors of Atresmedia and their legal advisors take the view that the aforesaid Statement of Objections is not sufficiently founded and have confidence in a positive outcome for Atresmedia, either during the administrative proceeding or in court proceeding in the event that the CNMC will take a decision imposing sanctions.

Foreign direct investments in the People's Republic of China are subject to a number of regulatory restrictions. To satisfy local requirements, some of Bertelsmann's activities in China are held as so-called VIE structures. These types of arrangements are standard market practice for investments in China. However, these structures are rarely the subject of legal disputes in China, which means that there is a certain risk that it will not be possible to safeguard VIE structures through the courts, particularly if the People's Republic changes its policies toward investments by foreigners (particularly in respect to VIE structures) or if courts and authorities change their case law or administrative practice. The draft "PRC Foreign Investment Law" of 2015 was reworked in December 2018 by the Chinese Ministry of Commerce in view of the US-China trade conflict and equal treatment of foreign investors in China. In contrast to the draft of 2015, this version no longer refers to VIE structures, and some commentators assume that VIE structures will accordingly continue to be unregulated. If provisions of this law are infringed, all income could be seized from forbidden or also only restricted investments. Other commentators presume that the Chinese government would treat (only) Chinese companies in critical industries as foreign companies, despite their VIE structure. Further developments in this legislative process are being keenly observed by local Bertelsmann lawyers and their advisors in cooperation with the Corporate Legal Department in order to anticipate the effects of the law as early as possible. This affects companies within Fremantle, BMG, Arvato and the Bertelsmann Education Group, as well as investments by Bertelsmann Asia Investments (BAI).

Aside from the matters outlined above, no further significant legal and regulatory risks to Bertelsmann are apparent at this time.

Financial Market Risks

As an international corporation, Bertelsmann is exposed to various forms of financial market risk, especially interest rate and currency risks. These risks are largely controlled by the Central Financial Department on the basis of guidelines established by the Bertelsmann Executive Board. Derivative financial instruments are used solely for hedging purposes. Bertelsmann mainly uses currency derivatives to hedge existing foreign currency risks from intercompany financing and operating liabilities. Some firm commitments denominated in foreign currency are partially hedged when they are made, with the hedged amount being adapted over time. A number of subsidiaries are based outside the eurozone. The resulting translation risk to the leverage factor is managed based on economic debt in relation to operating EBITDA (leverage factor). Bertelsmann's long-term focus is on the maximum leverage factor permitted for the Group. Foreign currency translation risks arising from net investments in foreign entities are not hedged. The cash flow risk from interest rate changes is centrally monitored and controlled as part of interest rate management. The aim is to achieve a balanced ratio of different fixed interest rates through the selection of appropriate maturity periods for the originated financial assets and liabilities affecting liquidity and through the ongoing use of interest rate derivatives. The liquidity risk is regularly monitored on the basis of the budget planning. A syndicated loan and appropriate liquidity provisions form a sufficient risk buffer for unplanned payments. Counterparty risks exist in the Group in respect to invested cash and cash equivalents and in an amount equivalent to the positive fair value from existing derivatives and are exclusively conducted with a defined group of banks with an impeccable credit rating. Within the guidelines, a risk limit specified by the Bertelsmann Executive Board has been issued for financial assets and derivatives for each counterparty. Compliance with this limit is regularly monitored by the Central Financial Department. The guidelines concerning the investment of cash and cash equivalents are continuously monitored and extended if necessary. Financial investments are made on a short-term basis so that the investment volume can be reduced if the credit rating changes. Overall, the financial market risks are estimated as low.

General Statement on the Risk Situation

The risks identified in the financial year 2018 are not endangering. Neither are there any substantial risks discernible that could threaten the existence of the Group.

The overall risk situation is slightly below the previous year's level. The major risks to the Group have not changed compared to the previous year. In particular, possible loss of audience and market share at RTL Group, a changing market environment, pricing and discounting risks, customer and supplier relationship risks, and volatile economic development still constitute the key Group challenges. However, as a result of the diversification of Group businesses, there are no concentration risks stemming from dependency on individual business partners or products in either procurement or sales. The Group's financial position is solid, with liquidity needs covered by existing liquidity and available credit facilities.

Opportunity Management System

An efficient opportunity management system enables Bertelsmann to secure its corporate success in the long term and to exploit potential in an optimal way. Opportunities are possible future developments or events that could result in a positive deviation from outlook or objective for Bertelsmann. The opportunity management system, like the RMS, is an integral component of the business processes and company decisions. During the strategy and planning process, significant opportunities are determined each year from the profit center level upward, and then aggregated step by step at the division and Group levels. By systematically recording them on several reporting levels, opportunities that arise can be identified and exploited at an early stage. This also creates an interdivisional overview of Bertelsmann's current opportunities. A review of major changes in opportunities is conducted at the divisional level every six months. In addition, the largely decentralized opportunity management system is coordinated by central departments in the Group in order to derive synergies through targeted cooperation in the individual divisions. The interdivisional experience transfer is reinforced by regular meetings of the GMC.

Opportunities

While the above-mentioned opportunities associated with positive development may be accompanied by corresponding risks, certain risks are entered into in order to be able to exploit potential opportunities. This link to the key Group risks offers strategic, operational, legal, regulatory and financial opportunities for Bertelsmann.

Strategic opportunities can be derived primarily from the Group's four strategic priorities. Strengthening core businesses, driving forward the digital transformation, developing growth platforms and expanding in growth regions constitute the most important long-term growth opportunities for Bertelsmann (see the section "Strategy"). In particular, there are opportunities in some cases for exploiting synergies as a result of the strategic portfolio expansions. There are individual operating opportunities in the individual divisions in addition to the possibility of more favorable economic development.

For RTL Group, a better-than-expected development of the TV advertising markets and higher audience and advertising market shares are major opportunities. Furthermore, the increasing digitization and fragmentation of the media landscape are opening up opportunities. Professionally produced content can be distributed across multiple platforms nationally and internationally. New revenue streams could be generated by exploiting existing TV content across different platforms and by creating native digital content. Also, with an increased presence in the digital sector, RTL Group could increase online video advertising sales on all devices and TV platforms and establish pay models in the on-demand business. In this way, new advertising sales could be generated through the offering of new interactive or targeted forms of advertising (HbbTV, IPTV or mobile television). As an established content producer with a global presence, RTL Group could further expand its digital distribution through multiplatform networks and digital streaming platforms.

Penguin Random House is the world's largest trade book publisher. Its position enables the publishing group to attract new authors and book projects to potentially grow its market share. The group is well positioned to invest in new markets and diverse content worldwide to take advantage of increasing interest in long-form reading, and to thereby offer its content to the widest possible readership. The digital evolution transforming book markets offers the potential for new product development and for broader and more efficient marketing channels. Digital audiobooks are experiencing growth worldwide, while new technologies could make books more appealing and bring book content to wider audiences. New online tools and platforms are expanding opportunities for author engagement with readers.

For Gruner + Jahr, a better development of the advertising and sales markets represents significant opportunities. The transformation is providing further opportunities due to the development of new businesses related to the published brands. There are opportunities for growth, particularly in the development and expansion of digital activities and in cooperation with other publishers and marketers. In terms of marketing, G+J could gain new customers through new forms of advertising in the online, mobile and video media channels.

BMG's focus is on organic growth through the signing of additional songwriter and artist clients. There may also be opportunities for selective acquisitions of music rights catalogs. The growing market penetration of subscription-based music streaming services offers significant opportunities to expand the recorded music and music publishing market internationally.

At Arvato, interdivisional cooperation and major projects can provide additional opportunities for acquiring new customers. The global e-commerce market will continue its dynamic growth over the next few years. Arvato could participate significantly in this growth through new services, particularly those offered by the Solution Groups SCM and Financial Solutions. Further growth opportunities from the ongoing digitization lie in the development of innovative IP-based and cloud-based IT services.

The Bertelsmann Printing Group businesses may decline less steeply through additional volumes of existing and new customers. There could also be a further consolidation of competitors, which could result in an additional strengthening of Bertelsmann Printing Group's own market position.

The education business is being developed as Bertelsmann's third earnings pillar, alongside the media and service businesses. A further shift away from traditional classroom-based delivery methods toward online and skill-based training could offer further growth opportunities for the education business. The growing online education market also offers organic growth opportunities for Bertelsmann Education Group businesses. For example, Relias has the potential to grow through the expansion of employee assessment and data analytics products, and through internationalization. Owing to the lack of skilled workers and the ongoing demand for further education in the technology sector, Udacity has an opportunity to become a premium brand in the area of IT and technology training.

For Bertelsmann Investments fund activities, there is the opportunity to realize higher-than-expected profits, thanks to increasing portfolio valuations or through the disposal of investments.

The current innovation efforts detailed in the section "Innovations" offer further potential opportunities for the individual divisions.

Other opportunities could arise from changes to the legal and regulatory environment.

The financial opportunities are largely based on a favorable development of interest and exchange rates from Bertelsmann's point of view.

Outlook

Anticipated Overall Economic Development

Bertelsmann anticipates that economic conditions will develop as follows in 2019. The global economy is expected to continue to grow in 2019, although less strongly than in the previous year. Due to the higher utilization of overall capacities in most economies, slower growth is anticipated. The Kiel Institute for the World Economy (IfW) estimates that global production will increase by 3.4 percent in 2019, compared to 3.7 percent in 2018. Risks to economic development are present especially in the eurozone, due to the looming disorderly withdrawal of the United Kingdom from the EU. In addition, the insecurity caused by a possible escalation of international trade conflicts impacts the outlook.

In the eurozone, the economic upturn will probably continue, although somewhat less dynamically. The IfW estimates real economic growth of 1.7 percent in 2019. The IfW also expects GDP for Germany to grow by 1.7 percent in real terms. The growth rate in France is expected to be 1.4 percent in real terms. For the United Kingdom, GDP is expected to rise at a slower pace: by 1.0 percent in real terms in 2019. For the United States, real economic growth of 2.5 percent is expected, thanks to the continuing solid economic momentum.

Anticipated Development in Relevant Markets

The worldwide media industry is primarily influenced by global economic developments and the resulting growth dynamic. The continued trend toward digitization of content and distribution channels, changes in media usage and the increasing influence of emerging economies will continue to present risks and opportunities in the years to come. Through the intended transformation of the Group portfolio in line with the four strategic priorities, Bertelsmann expects to benefit to an increasing extent from the resulting opportunities.

Through its businesses, Bertelsmann operates in a variety of different markets and regions whose developments are subject to a range of factors and that do not respond in a linear fashion to overall economic tendencies. The following takes into account only those markets and regions that are large enough to be relevant for forecasting purposes and whose expected development can be appropriately aggregated and evaluated or that are strategically important from a Group perspective.

For 2019, the European TV advertising markets are expected to remain stable or to grow slightly. In the book markets, an overall stable development is expected. In the magazine business, the strong decline in the print advertising and the significant decline in circulation markets in Germany and France will persist in 2019, while continued strong growth is expected in the digital segment in Germany. For 2019, continuing moderate growth of the global music market is expected in the publishing rights segment. At the same time, significant growth is anticipated in the recording rights segment. In 2019, the services markets are demonstrating growth similar to the previous year, as expected. The gravure printing market in 2019 is likely to show an ongoing significant decline. Continued moderate decline is expected for the offset market in Europe, while the book printing market in North America is expected to continue its stable development. Overall, sustained strong growth is anticipated for the relevant US education markets.

Expected Business Development

The following expectations are based on the assumption of a gradual normalization of the overall economic situation and an assumption that most of the forecasted market developments and the economic predictions of the research institutions will be realized.

For the financial year 2019, Bertelsmann anticipates that business development will be driven by the stable European TV advertising and book markets, and by growing service and music markets. The growth stimuli created through strategic portfolio expansions will continue to have a positive impact on Bertelsmann’s growth profile.

In addition to the assumed market developments, the predicted economic developments in the geographic core markets of Western Europe and the United States are the basis of the expected business development. With revenue and earnings share within the eurozone currently expected at around two-thirds, the extent of growth is above all based on the forecasted real and nominal economic development in this economic zone. The IfW therefore predicts that GDP in the eurozone will increase by 1.7 percent in real terms and that the International Monetary Fund will increase by 1.6 percent for 2019. In view of these economic expectations, Bertelsmann expects Group revenues to show a moderate increase in the financial year 2019. Operating EBITDA is expected to grow strongly in the financial year 2019. Application of the new IFRS 16 Leases will have a substantial effect on EBITDA (further details are presented in the notes to the Consolidated Financial Statements in the section “Impact of New Financial Reporting Standards”). Excluding this effect, a stable to slightly increasing performance is expected for the operating EBITDA. The average level of capital invested will continue to increase in the financial year 2019 as a result of acquisitions made, the organic expansion of growth businesses and the effects of the new IFRS 16. Compensating effects from earnings contributions are not expected to materialize for some time. Consequently, a strong fall in BVA is still expected for the Group. These expectations are based on operational planning and the medium-term outlook for the corporate divisions, assuming that exchange rates remain constant.

At present, the expected performance of any individual unit of key significance for the Bertelsmann Group is not expected to deviate significantly from that of the Group.

Depending on how the economy develops, Bertelsmann does not currently anticipate interest rate changes to have any material impact on the average financing costs of medium- to long-term financing. The liquidity situation in the forecast period is expected to be sufficient.

These forecasts are based on Bertelsmann’s business strategy, as outlined in the section “Corporate Profile.” In general, the forecasts reflect careful consideration of risks and opportunities. All statements concerning potential economic and business developments represent opinions advanced on the basis of the information that is currently available. Should underlying assumptions fail to apply and/or further risks arise, actual results may differ from those expected. Accordingly, no assurances can be provided concerning the accuracy of such statements.

Notes to the Financial Statements of Bertelsmann SE & Co. KGaA (in accordance with HGB, German Commercial Code)

In addition to the Group reporting, the business development of Bertelsmann SE & Co. KGaA is outlined below. Bertelsmann SE & Co. KGaA is the parent company and group holding company of the Bertelsmann Group. As a group holding company, it exercises key corporate functions such as the definition and further development of group strategy, capital allocation, financing and management. There are also service functions for individual divisions within the Corporate Center. Furthermore, it is the controlling company of the tax group for most of the domestic subsidiaries. The position of Bertelsmann SE & Co. KGaA is essentially determined by the business success of the Bertelsmann Group.

The Annual Financial Statements of Bertelsmann SE & Co. KGaA, in contrast to the Consolidated Financial Statements, have not been prepared in accordance with the International Financial Reporting Standards (IFRS) but in accordance with the regulations of the German Commercial Code (HGB) and the supplementary regulations of the German Stock Corporation Act (AktG).

Results of Operations of Bertelsmann SE & Co. KGaA

The results of operations of Bertelsmann SE & Co. KGaA will continue to be significantly affected by the amount of income from other participations, due to Bertelsmann SE & Co. KGaA's role as the parent company of the Bertelsmann Group. The decrease in net income to €306 million (previous year: €363 million) is primarily attributable to lower other operating income and higher write-downs of long-term financial assets. In contrast, higher income from other participations and lower taxes on income impacted net income favorably.

Other operating income decreased by €109 million as a result of lower write-ups recognized on the shares in Bertelsmann Inc., Wilmington, and lower currency gains. The increase of €194 million in other operating expenses to €245 million is primarily attributable to higher currency losses.

Given that expenses from loss assumption have increased, the trend in the income from participations from €687 million in the previous year to €759 million in 2018 is primarily attributable to higher income from profit and loss transfer agreements. Firstly, these changes are related to changes in the income from participations recognized by subsidiaries. Secondly, the income from subsidiaries is negatively impacted by non-recurring expenses in the 2018 financial year.

The higher write-downs of long-term financial assets mainly pertain to write-downs of shares in Media Communication S.A.S., Vendin-Le-Vieil.

Income Statement of Bertelsmann SE & Co. KGaA in accordance with HGB

in € millions	2018	2017
Revenues	115	105
Other operating income	202	311
Cost of materials	(30)	(28)
Personnel costs	(175)	(143)
Amortization, depreciation and write-downs	(20)	(17)
Other operating expenses	(245)	(194)
Income from other participations	759	687
Interest income	(58)	(80)
Write-downs of long-term financial assets	(128)	(79)
Taxes on income	(111)	(198)
Earnings after taxes	309	364
Other taxes	(3)	(1)
Net income	306	363
Income brought forward from previous year	485	462
Transfer to retained earnings from net income	(150)	(160)
Unappropriated income	641	665

Balance Sheet of Bertelsmann SE & Co. KGaA in accordance with HGB (Summary)

in € millions	12/31/2018	12/31/2017
Assets		
Fixed assets		
Intangible and tangible assets	388	377
Long-term financial assets	16,998	16,702
	17,386	17,079
Current assets		
Receivables and other assets	4,234	3,562
Securities, cash and cash equivalents	230	520
	4,464	4,082
Prepaid expenses and deferred charges	21	21
	21,871	21,182
Shareholders' equity and liabilities		
Shareholders' equity	9,631	9,505
Provisions	470	498
Liabilities	11,767	11,177
Deferred income	3	2
	21,871	21,182

The taxes on income decreased to €-111 million in the 2018 financial year (previous year: €-198 million) as a result of lower taxable income of the tax group.

Net Assets and Financial Position of Bertelsmann SE & Co. KGaA

The total assets of Bertelsmann SE & Co. KGaA increased slightly from €21,182 million to €21,871 million. A high ratio of equity (44 percent) and long-term financial assets (78 percent) to total assets continues to dictate the performance of the net assets and financial position.

The increase in long-term financial assets is due in part to contributions paid to subsidiaries in the amount of €514 million, which are primarily related to Bertelsmann Capital Holding GmbH, Gütersloh. This was partly offset by the repayment of a loan in the amount of €142 million by Bertelsmann, Inc., Wilmington. The increase in receivables and other assets is related to the financing of capital contributions to subsidiaries by Reinhard Mohn GmbH, Gütersloh.

The equity increased as a result of the net income of the reporting year by €306 million and decreased by €180 million as a result of distributions to shareholders. The increase in liabilities to €11,767 million (previous year: €11,177 million) includes €550 million from bonds and promissory notes as a result of issuing one new bond and the repayment of a promissory note.

Risks and Opportunities for Bertelsmann SE & Co. KGaA

As Bertelsmann SE & Co. KGaA is largely linked to the Bertelsmann Group companies, among other things through the financing and guarantee commitments, as well as through direct and indirect investments in the subsidiaries, the situation of Bertelsmann SE & Co. KGaA in terms of risks and opportunities is primarily dependent on the risks and opportunities of the Bertelsmann Group. In this respect, the statements made by corporate management concerning the overall assessment of the risks and opportunities also constitute a summary of the risks and opportunities of Bertelsmann SE & Co. KGaA (see the section "Risks and Opportunities").

Outlook for Bertelsmann SE & Co. KGaA

As the parent company of the Bertelsmann Group, Bertelsmann SE & Co. KGaA receives from its subsidiaries dividend distributions and income or expenses from profit and loss transfer agreements, as well as income from services provided to its subsidiaries. Consequently, the performance of Bertelsmann SE & Co. KGaA is primarily determined by the business performance of the Bertelsmann Group (see the section "Outlook").

Dependent Company Report (Statement in accordance with Section 312 of the German Stock Corporation Act (AktG))

The Executive Board of Bertelsmann Management SE, as general partner of Bertelsmann SE & Co. KGaA, has submitted a voluntary report to the Supervisory Board of Bertelsmann SE & Co. KGaA in accordance with sections 278 (3) and 312 (1) of the German Stock Corporation Act, in which it outlines its relationships with affiliated companies for the financial year 2018. The Executive Board hereby declares that Bertelsmann SE & Co. KGaA received adequate consideration in return for each and every legal transaction under the circumstances known at the time the transactions were undertaken.

Combined Non-Financial Statement

The following information relates to Bertelsmann SE & Co. KGaA and the Bertelsmann Group ("Bertelsmann") with its incorporated, fully consolidated subsidiaries ("subsidiaries") in accordance with sections 315b and 315c of the HGB in conjunction with sections 289b to 289e of the HGB.

Bertelsmann operates in the core business fields of media, services and education in around 50 countries (cf. section "Company Profile"). Responsible conduct – in business, toward employees, in society and in dealing with the environment – is firmly anchored in Bertelsmann's corporate culture. In its corporate responsibility management, Bertelsmann pursues the goal of reconciling commercial interests with social and environmental concerns within the Group and beyond.

For the purpose of identifying relevant topics and describing concepts, the GRI Standards 2016 specified by the Global Reporting Initiative (in particular standards 102 and 103) were used to produce the Group Non-Financial Statement. In addition, voluntary CR-reporting based on the GRI Standards (2016; Option "core") will be published by the middle of the financial year.

Company Principles and Guidelines

The prerequisites for a corporate culture in which employees, management and shareholders work together successfully, respectfully and in a spirit of trust are common goals and shared values. These are enshrined in the corporate constitution and in the Bertelsmann Essentials. Furthermore, the Bertelsmann Code of Conduct – as a binding guideline – defines standards for law-abiding and ethically responsible conduct within the company and toward business partners and the public. The sense of purpose embodied in the triad "To Empower. To Create. To Inspire." also provides orientation for the company's staff and partners.

Bertelsmann's actions are also determined by external guidelines. The company largely follows the recommendations of the German Corporate Governance Code for good and responsible corporate governance, and the OECD Guidelines for Multinational Enterprises. Bertelsmann is committed to the principles of the Universal Declaration of Human Rights, the United Nations Guiding Principles on Business and Human Rights, and the International Labor Organization core labor standards. Bertelsmann has been a signatory of the United Nations Global Compact since 2008.

Corporate Responsibility Management

Organization

The advisory body for the strategic development of corporate responsibility at Bertelsmann is the CR Council. The CR Council, which is made up of the Chief Human Resources Officer (CHRO) and representatives from the corporate divisions, focuses on the Group-wide CR objectives in line with the corporate strategy and the cross-divisional coordination of CR activities within the Group.

At the Group level, the Corporate Responsibility & Diversity Management department coordinates and supports the work of the CR Council in close cooperation with the other Group functions. Within the decentralized Bertelsmann corporate structure, the local management teams are responsible for implementing corporate responsibility through specific CR measures and projects. The corporate divisions and companies have their own structures and processes in place for this, in accordance with local requirements.

Topics

To identify key CR topics, Bertelsmann carries out regular CR relevance analyses. The current analysis was finalized in early 2018. For this analysis, the company conducted a survey of internal and external stakeholders. The external stakeholders estimated the impact of Bertelsmann's business activity on the topics, while the internal stakeholders assessed their business relevance. This made it possible to identify topics of relevance to Bertelsmann relating to environmental, social and employee matters, and respect for human rights, anti-corruption and bribery matters. These topics are analyzed within the company boundaries, unless otherwise stated.

CR topics, including non-financial performance indicators, are not directly relevant to business, and are accordingly not part of Bertelsmann's value-oriented management system. Due to currently only limited measurability, no directly quantifiable statements can be made regarding relevant interdependencies and value increases for the Group. For this reason, the non-financial performance indicators are not used for the management of the Group (cf. section "Value-Oriented Management System").

Risks

A number of risks associated with CR topics is relevant for Bertelsmann. These risks can arise from the company's own business activities or from its business relationships, and can affect the company or its environment and stakeholders.

For the non-financial matters defined in the German Commercial Code – social and employee matters, anti-corruption and bribery matters, respect for human rights and environmental matters – no significant risks were identifiable as part of the 2018 reporting.

For more information on the relevant risks, please see the section "Risks and Opportunities."

Employee Matters

Motivated employees ensure long-term quality, innovation and growth. HR work at Bertelsmann is therefore based on the company's cooperative identity as codified in the corporate constitution and the Bertelsmann Essentials. Supplementary regulations are specified in the Bertelsmann Code of Conduct and the Executive Board guidelines on HR work. The CHRO is primarily responsible for dealing with employee matters within the company. He works closely with the HR managers from the corporate divisions who report directly to him via a dotted-line concept. The focus of his work includes setting the strategic HR agenda, continual development of company partnerships, aligning management development with the Group's strategic priorities, managing recruitment and compensation processes for key Group positions, and standardizing and providing IT support for important HR processes. In 2018, measures were taken to address the following topics.

Participation

Bertelsmann sees continual dialogue between employees and company management as a fundamental prerequisite to the company's success. Although Bertelsmann, as a media company, is free to determine its political direction as defined in the German Works Constitutions Act (Tendenzschutz) and therefore is not subject to statutory co-determination in the Supervisory Board, company employees nevertheless nominate five members to serve on the Supervisory Board of Bertelsmann SE & Co. KGaA on a voluntary basis: four of these are works council members and one is a member of the Bertelsmann Management Representative Committee. In addition, managers, general workforce, employees with disabilities and trainees all have platforms for exchanging ideas, advancing topics and voicing their concerns. The Bertelsmann Group Dialogue Conference is an event where the CEO, CHRO and members of the Corporate Works Council can exchange ideas. Employees are also involved in the development and improvement of working conditions through standardized HR interview tools (Performance and Development Dialogue, Agreements on Objectives, Team Talk), as well as Group-wide employee surveys. In 2018 the company pressed ahead on digitization and focus of employee surveys and made preparations for the next survey in 2019.

Learning

Highly trained employees are needed to overcome major challenges such as the Group's increasingly international focus, the digital transformation of media and services, and demographic change. By providing opportunities for lifelong learning, Bertelsmann helps to secure the long-term employability of its employees. With four different campuses – Strategy, Leadership, Function and Individual – Bertelsmann University is the central learning organization within the company. The most important measures implemented in 2018 included the further development of international programs in the areas of leadership, strategy and transformation, and formats on the topics of creativity and entrepreneurship. In addition to developing new HR programs, an international scholarship program in data science was introduced in 2018. Content of the training and courses offered by Bertelsmann in Germany was expanded to include new challenges in the workplace.

Diversity

For Bertelsmann, diversity of its workforce is a prerequisite for creativity, innovation and long-term business success. The Bertelsmann Diversity Statement adopted in 2018 also emphasized this stance. The diversity strategy is implemented by the Corporate Responsibility & Diversity Management department with support from a Group-wide working group. The focus is on “Gender,” “Generations” and “Nationality.” The Group Management Committee, which currently consists of 18 members (previous year: 17), includes 6 women (previous year: 6) and 7 nationalities (previous year: 6). To further increase diversity at the management levels, Bertelsmann has sought since 2017 to increase the percentage of women in the talent pools to one-third (Top Management Pool, Senior Management Pool, Career Development Pool). Additional topics are inclusion and sexual orientation and identity. As part of this initiative, work began in 2018 to create a Bertelsmann Inclusion Action Plan and to roll out diversity training courses.

Health

With a view to designing a health-promoting work environment and preventing work-related risks of disease, Bertelsmann is expanding a systematic health management system at German locations. Bertelsmann Health Management has been put in charge of supervising and coordinating the Germany-wide health strategy and associated activities, in conjunction with a cross-functional strategy group. The cross-divisional “Health Community,” which is comprised of health experts, works council chairs, Supervisory Board members, HR managers and representatives for employees with disabilities, plays a key role here. Through targeted networking, it also helps to reinforce uniform standards for all German locations. In 2018, another working group was created to accelerate the implementation of health management in the companies.

Fair Working Conditions

At Bertelsmann, remuneration issues are an essential part of the topic of fair working conditions. The policy is to establish consistent and transparent remuneration structures in the Group. The design of the compensation system is intended to ensure that remuneration is driven by market, function and performance, taking into account business-specific characteristics. Employee profit sharing in Germany is based on the same criteria as those used to calculate variable remuneration components for Executive Board members and executives. This includes Bertelsmann and subsidiaries based in Germany, with the exception of RTL Group and Gruner + Jahr. These and many foreign subsidiaries have similar success and profit-sharing models adapted to local requirements. In 2018, a total of €105 million of the 2017 profit was distributed as part of such schemes.

Social Matters

Corporate citizenship is one of the Bertelsmann Essentials and is thus firmly anchored in Bertelsmann’s corporate culture. As a good corporate citizen, Bertelsmann is committed to contributing to society and implemented measures in the following areas in 2018.

Creative Independence

Bertelsmann stands for editorial and journalistic independence as well as for freedom of the press and artistic license. Bertelsmann publishes a wide variety of opinions and positions. These basic principles for business activities are set forth in the Bertelsmann Code of Conduct. Bertelsmann interprets this independence in two directions: Inside the company, it means that our management does not attempt to influence the decisions of artists, editors and program managers, or to restrict their artistic or editorial freedom. In accordance with the Bertelsmann “Editor-in-chief Principle,” editorial decisions are the sole responsibility of the content managers. To the outside, this means that the company does not capitulate to political or economic influence in its coverage, and complies with existing laws regarding the separation of editorial content and commercial advertising. The result is that the company expects careful research and qualitative reporting, unaffected by fake news and online disinformation. In addition to the Bertelsmann Code of Conduct, many subsidiaries and their editors and creative departments in 2018 continued to implement their own statutes and rules to safeguard editorial and artistic independence in their day-to-day business and to develop these further where necessary. These statutes focus primarily on duties of care, respect for privacy, and dealing with the representation of violence and the protection of minors.

Content Responsibility

Bertelsmann reflects on the repercussions of the content it produces and distributes to protect the rights and interests of media users, customers and third parties as far as possible. Overriding principles and guidelines of media ethics are set by national and international laws governing the press, broadcasting and multimedia; by voluntary commitments to external guidelines such as the ethics codes of national press councils; and within the company by the Bertelsmann Code of Conduct and editorial statutes. In accordance with these principles and guidelines, Bertelsmann’s editorial staff are committed to, among other things, “respecting privacy and the responsible treatment of information, opinion and images.” In accordance with the “Editor-in-chief Principle,” the responsibility for media content lies solely with the content managers in the local editorial teams and creative departments.

In the area of youth media protection, content is monitored at Bertelsmann in accordance with different restrictions for each medium and region to see if it could adversely affect the development of children or young people. In this case, various restrictions come into force, such as broadcasting time restrictions or content and/or product labels. Through voluntary labeling systems Bertelsmann sometimes goes beyond the existing European and national regulations, particularly in the broadcasting industry. Other specifications relating to content responsibility are agreed through supplementary statutes at divisional, company and editorial level.

Customer Data Protection

Bertelsmann attaches great importance to protecting customer data. This includes safeguarding the personal data of individual customers, as well as information about customers that is provided to Bertelsmann by its business partners. The objective of customer data protection is to protect an individual's right to determine who acquires what knowledge about them, and when. This also means that personal information, or information that could identify a person, must be handled in accordance with legal requirements and adequately protected against unauthorized access. In addition to the Bertelsmann Code of Conduct, customer data protection within the company is regulated by Executive Board guidelines on the topics of information security and IT risk management.

The Executive Board Guideline on Data Protection addresses the data protection framework conditions at Bertelsmann Group based on the European Union's General Data Protection Regulation (GDPR), which went into effect on May 25, 2018, and is designed to ensure consistent data protection management across the Bertelsmann Group. A data protection management system has been in place since 2017. It addresses in particular implementation of the documentation and accountability obligations under GDPR, as well as regulations concerning governance obligations.

Responsibility for customer data protection is decentralized and rests with the management of the individual subsidiaries. To ensure compliance with local laws governing customer data protection, the subsidiaries in Germany have a data protection organization consisting of central data protection officers and local data protection coordinators. The latter report to the local management, as well as annually or on an event-driven basis to the central data protection officers, who in turn report to the Bertelsmann Executive Board. A similar organization exists in subsidiaries outside Germany. An information security management system (ISMS) based on industry-standard ISO 27001 creates the technical framework for confidential data processing. The ISMS features a regular and structured survey to ensure compliance with statutory information security requirements, a systematic recording of risks and the derivation of related mitigation measures.

Protecting Intellectual Property

Bertelsmann's businesses develop, produce, transfer, license, and sell products and services that are protected as intellectual property. For Bertelsmann, the protection of intellectual property rights is the foundation of its business success. For this reason, the company is committed to a high level of global copyright protection worldwide and in the digital world. The Group-wide Taskforce Copyright, with representatives from the relevant corporate divisions, supports current developments in copyright and summarizes its positions in the form of joint papers.

Respect for Human Rights

Through its corporate principles and its voluntary commitment to external guidelines, Bertelsmann is committed to respecting and protecting human rights within the company and in its business relationships. For this reason, the Bertelsmann Executive Board established an Integrity & Compliance program and appointed a Corporate Compliance Committee (CCC). The CCC submits an annual Compliance Report to the Bertelsmann Executive Board and the Audit and Finance Committee. The Integrity & Compliance (I&C) department was created to manage the ongoing day-to-day work and is subordinated to the CCC in the organization. I&C supports the CCC in fulfilling its tasks and makes suggestions for necessary improvements to the I&C program. I&C ensures that employees worldwide are made aware of the key legal provisions and internal company guidelines, including those concerning the respect for human rights, and it implemented the training and communication measures necessary for this in 2018.

Respect for human rights, also within the supply chain, is expressly stipulated by the Bertelsmann Code of Conduct and the Supplier Code of Conduct. This includes the ban on child and coercive labor and the ban on discrimination and intimidation, and it reaffirms the right to freedom of association and the right to engage in collective bargaining. In addition, individual subsidiaries and Bertelsmann itself issued statements in 2018 in accordance with the "UK Modern Slavery Act" that condemn all forms of modern slavery, coercive and child labor, and exploitation and discrimination, and present measures to prevent these human rights violations. These statements are revised each year (if required). At Bertelsmann, violations of this principle may be reported by employees and by third parties via the reporting channels within the existing compliance management system.

In terms of anti-discrimination, contact persons for Germany's "General Equal Treatment Act" (AGG) have been appointed at all German locations. Employees can contact them in the event of suspected breaches of said act. The employees are informed of their rights under the AGG and given corresponding training through a wide range of communication channels. The topic of anti-discrimination was addressed in a Group-wide e-learning program designed to build employee awareness of the issue and advise them of their rights. These activities were continually refined and expanded in 2018.

Anti-Corruption and Bribery Matters

Both the Bertelsmann Code of Conduct and the Bertelsmann Executive Board Guideline on Anti-corruption and Integrity expressly prohibit all forms of corruption and bribery. This prohibition also applies to all third parties that work for, with or on behalf of Bertelsmann, as stipulated in the Supplier Code of Conduct. Along with instructions for dealing with officials, and guidelines for the granting or accepting of gifts in the context of business relations, the Anti-corruption and Integrity Guideline prescribes appropriate due diligence processes in dealing with third parties. An appropriate due diligence review is carried out for each individual risk profile through a corresponding risk classification. This Executive Board guideline also describes the channels for reporting suspected violations and seeking advice, as well as other prevention and control measures. The Executive Board guideline for dealing with alleged compliance violations anchors an obligation to report suspected violations of the prohibition of corruption to the Bertelsmann Corporate Center. The topic of corruption prevention is globally managed and further developed by the I&C department. One of the most important measures in 2018 was advising and training executives and employees on anti-corruption and the continued Group-wide rollout of the new e-learning program on this topic conceived in 2017.

Fair Competition and Antitrust Law

Bertelsmann is committed to the principle of fair competition and condemns antitrust violations and anticompetitive behavior. The company acts against any contravention and consults internal or external experts on antitrust and competition issues. The Bertelsmann Executive Board has approved a "Group Guideline for Compliance with Antitrust Regulations." There is an obligation to report any antitrust violations. The Corporate Legal Department offers antitrust training programs to corporate divisions and the management and employees of these divisions. A comprehensive compulsory training program for employees working in antitrust-related areas, which was also implemented in 2018, is intended to identify antitrust risks at an early stage and to prevent antitrust violations.

Environmental Matters

The Bertelsmann Environmental Policy and the Bertelsmann Paper Policy provide guidelines for Group-wide responsible use of natural resources and environmentally friendly energy and material procurement. The environmental commitment extends beyond the individual locations to the supply chain, in particular by selecting and influencing paper suppliers and energy firms. Operational responsibility for energy and environmental management, as well as for implementing measures, is decentralized and rests with the management of the individual companies. The international "be green" Working Group with representatives from the Bertelsmann corporate divisions again provided a platform for cross-divisional exchange on environmental topics in 2018. The cooperation will focus on increasing the use of paper from certified or recycled sources and reducing greenhouse gas emissions from the consumption of energy, heat and fuels. Experts from the "be green" Working Group also coordinate the annual collection of key environmental figures, which creates transparency about impacts on the environment and climate and Bertelsmann's environmental performance, and enable the management to derive measures for improvement. In 2018, in parts of the Group, the annual environmental data collection was conducted for the first time with an IT-supported environmental platform, and preparations were made for a rollout in other divisions. The Group-wide environmental key figures are published on the Bertelsmann website.

Consolidated Financial Statements

Consolidated Income Statement

in € millions	Notes	2018	2017
Revenues	1	17,673	17,190
– thereof revenues from contracts with customers		17,455	n/a
– thereof revenues from financial services		218	n/a
Other operating income	2	473	568
Cost of materials	13	(5,535)	(5,487)
Royalty and license fees		(1,593)	(1,547)
Personnel costs	3	(5,658)	(5,541)
Amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment	4	(847)	(691)
Other operating expenses	5	(2,954)	(2,781)
Results from investments accounted for using the equity method	11	57	63
Impairment and reversals on investments accounted for using the equity method	11	(2)	(50)
Results from financial assets		n/a	(10)
Results from disposals of investments	12	6	182
EBIT (earnings before interest and taxes)		1,620	1,896
Interest income	6	15	14
Interest expenses	6	(115)	(134)
Other financial income	7	49	26
Other financial expenses	7	(165)	(125)
Financial result		(216)	(219)
Earnings before taxes from continuing operations		1,404	1,677
Income tax expense	8	(301)	(472)
Earnings after taxes from continuing operations		1,103	1,205
Earnings after taxes from discontinued operations		1	(7)
Group profit or loss		1,104	1,198
attributable to:			
Bertelsmann shareholders			
Earnings from continuing operations		752	783
Earnings from discontinued operations		1	(7)
Earnings attributable to Bertelsmann shareholders		753	776
Non-controlling interests			
Earnings from continuing operations		351	422
Earnings from discontinued operations		–	–
Earnings attributable to non-controlling interests		351	422

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

Consolidated Statement of Comprehensive Income

in € millions	Notes	2018	2017
Group profit or loss		1,104	1,198
Items that will not be reclassified subsequently to profit or loss			
Remeasurement component of defined benefit plans		(60)	176
Changes in fair value of equity instruments		3	n/a
Share of other comprehensive income of investments accounted for using the equity method		–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met			
Exchange differences			
– changes recognized in other comprehensive income		94	(445)
– reclassification adjustments to profit or loss		20	13
Available-for-sale financial assets			
– changes in fair value recognized in other comprehensive income		n/a	17
– reclassification adjustments to profit or loss		n/a	(35)
Cash flow hedges			
– changes in fair value recognized in other comprehensive income		23	(45)
– reclassification adjustments to profit or loss		2	(27)
Share of other comprehensive income of investments accounted for using the equity method		(2)	(8)
Other comprehensive income net of tax	17	80	(354)
Group total comprehensive income		1,184	844
attributable to:			
Bertelsmann shareholders		816	508
Non-controlling interests		368	336

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

Consolidated Balance Sheet

in € millions	Notes	12/31/2018	12/31/2017
Assets			
Non-current assets			
Goodwill	9	8,410	8,084
Other intangible assets	9	2,591	2,478
Property, plant and equipment	10	1,670	1,658
Investments accounted for using the equity method	11	658	952
Minority stakes and other financial assets	12	1,143	644
Trade and other receivables	14	59	87
Other non-financial assets	15	851	710
Deferred tax assets	8	1,051	928
		16,433	15,541
Current assets			
Inventories	13	1,735	1,664
Trade and other receivables	14	4,459	4,010
Other financial assets	12	71	67
Other non-financial assets	15	1,002	868
Current income tax receivables		156	120
Cash and cash equivalents	16	1,405	1,440
		8,828	8,169
Assets held for sale		82	3
		25,343	23,713
Equity and liabilities			
Equity	17		
Subscribed capital		1,000	1,000
Capital reserve		2,345	2,345
Retained earnings		5,129	4,497
Bertelsmann shareholders' equity		8,474	7,842
Non-controlling interests		1,364	1,285
		9,838	9,127
Non-current liabilities			
Provisions for pensions and similar obligations	18	1,738	1,685
Other provisions	19	135	126
Deferred tax liabilities	8	127	124
Profit participation capital	20	413	413
Financial debt	21	4,670	4,251
Trade and other payables	22	353	366
Other non-financial liabilities	22	395	391
		7,831	7,356
Current liabilities			
Other provisions	19	299	323
Financial debt	21	667	668
Trade and other payables	22	4,718	4,313
Other non-financial liabilities	22	1,839	1,709
Current income tax payables		88	214
		7,611	7,227
Liabilities related to assets held for sale		63	3
		25,343	23,713

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

Consolidated Cash Flow Statement

in € millions	2018	2017 (adjusted)
Group earnings before interest and taxes	1,621	1,889
Taxes paid	(534)	(434)
Depreciation and write-ups of non-current assets	855	766
Results from disposals of investments	(7)	(176)
Gains/losses from disposals of non-current assets	(62)	(119)
Change in provisions for pensions and similar obligations	(113)	(121)
Change in other provisions	(20)	7
Change in net working capital	(178)	(225)
Fair value measurement of investments	(157)	(15)
Other effects	32	33
Cash flow from operating activities	1,437	1,605
– thereof discontinued operations	–	–
Investments in:		
– intangible assets	(295)	(319)
– property, plant and equipment	(325)	(360)
– financial assets	(258)	(211)
– purchase prices for consolidated investments (net of acquired cash)	(556)	(213)
Disposals of subsidiaries and other business units	113	4
Disposals of other fixed assets	191	339
Cash flow from investing activities	(1,130)	(760)
– thereof discontinued operations	1	–
Issues of bonds and promissory notes	942	697
Redemption of bonds and promissory notes	(400)	–
Proceeds from/redemption of other financial debt	(150)	282
Interest paid	(196)	(166)
Interest received	27	12
Dividends to Bertelsmann shareholders	(180)	(180)
Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))	(356)	(743)
Change in equity	(59)	(657)
Cash flow from financing activities	(372)	(755)
– thereof discontinued operations	–	–
Change in cash and cash equivalents	(65)	90
Exchange rate effects and other changes in cash and cash equivalents	28	(24)
Cash and cash equivalents 1/1	1,442	1,376
Cash and cash equivalents 12/31	1,405	1,442
Less cash and cash equivalents included within assets held for sale	–	(2)
Cash and cash equivalents 12/31 (according to the consolidated balance sheet)	1,405	1,440

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards." Details on the cash flow statement and the adjustment made are presented in note 25 "Cash Flow Statement."

Change in Net Financial Debt

in € millions	2018	2017 (adjusted)
Net financial debt at 1/1	(3,479)	(2,625)
Cash flow from operating activities	1,437	1,605
Cash flow from investing activities	(1,130)	(760)
Interest, dividends and changes in equity, additional payments (IAS 32.18(b))	(764)	(1,734)
Exchange rate effects and other changes in net financial debt	4	35
Net financial debt at 12/31	(3,932)	(3,479)

Net financial debt is the balance of the balance sheet positions "Cash and cash equivalents" and "Financial debt."

Consolidated Statement of Changes in Equity

in € millions	Subscribed capital	Capital reserve[1]	Retained earnings: Other retained earnings	Retained earnings: Accumulated other comprehensive income[2]: Exchange differences	Retained earnings: Accumulated other comprehensive income[2]: Available-for-sale financial assets	Retained earnings: Accumulated other comprehensive income[2]: Fair value reserve	Retained earnings: Accumulated other comprehensive income[2]: Cash flow hedges	Retained earnings: Accumulated other comprehensive income[2]: Share of other comprehensive income of investments accounted for using the equity method	Bertelsmann shareholders' equity	Non-controlling interests	Total
Balance as of 1/1/2017	1,000	2,345	4,276	113	85	n/a	32	21	7,872	2,023	9,895
Group profit or loss	–	–	776	–	–	n/a	–	–	776	422	1,198
Other comprehensive income	–	–	170	(361)	(16)	n/a	(54)	(7)	(268)	(86)	(354)
Group total comprehensive income	–	–	946	(361)	(16)	n/a	(54)	(7)	508	336	844
Dividend distributions[3]	–	–	(180)	–	–	n/a	–	–	(180)	(789)	(969)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	(400)	52	–	n/a	–	1	(347)	(282)	(629)
Equity transactions with shareholders	–	–	(580)	52	–	n/a	–	1	(527)	(1,071)	(1,598)
Other changes	–	–	(11)	–	–	n/a	–	–	(11)	(3)	(14)
Balance as of 12/31/2017	1,000	2,345	4,631	(196)	69	n/a	(22)	15	7,842	1,285	9,127
Balance as of 1/1/2018	1,000	2,345	4,631	(196)	69	n/a	(22)	15	7,842	1,285	9,127
Adjustment	–	–	59	–	(69)	10	–	(8)	(8)	(3)	(11)
Balance as of 1/1/2018[4]	1,000	2,345	4,690	(196)	n/a	10	(22)	7	7,834	1,282	9,116
Group profit or loss	–	–	753	–	n/a	–	–	–	753	351	1,104
Other comprehensive income	–	–	(67)	110	n/a	3	19	(2)	63	17	80
Group total comprehensive income	–	–	686	110	n/a	3	19	(2)	816	368	1,184
Dividend distributions	–	–	(180)	–	n/a	–	–	–	(180)	(293)	(473)
Changes in ownership interests in subsidiaries that do not result in a loss of control	–	–	6	1	n/a	–	–	–	7	(8)	(1)
Equity transactions with shareholders	–	–	(174)	1	n/a	–	–	–	(173)	(301)	(474)
Other changes	–	–	(2)	–	n/a	(1)	–	–	(3)	15	12
Balance as of 12/31/2018	1,000	2,345	5,200	(85)	n/a	12	(3)	5	8,474	1,364	9,838

1) The capital reserve mainly includes share premiums received from the issue of ordinary shares in excess of their par values.
2) As in the previous year, as of December 31, 2018, no significant amounts relate to assets classified as held for sale in accordance with IFRS 5.
3) The dividend distributions to non-controlling interests recognized in the previous year included a special dividend distribution to the co-shareholder in Penguin Random House in the amount of €430 million.
4) The adjustments result from the first-time application of the financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers as of January 1, 2018. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

Segment Information (Continuing Operations)

	RTL Group		Penguin Random House		Gruner + Jahr		BMG		Arvato	
in € millions	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from external customers	6,494	6,358	3,424	3,359	1,420	1,493	542	504	4,033	3,754
Intersegment revenues	11	15	–	–	20	20	3	3	67	69
Divisional revenues	6,505	6,373	3,424	3,359	1,440	1,513	545	507	4,100	3,823
Operating EBITDA	1,402	1,478	528	521	140	145	122	104	377	320
EBITDA margin[1]	21.5%	23.2%	15.4%	15.5%	9.7%	9.6%	22.5%	20.5%	9.2%	8.4%
Impairment (-)/reversals (+) on intangible assets and property, plant and equipment	(105)	(3)	–	–	(46)	(32)	–	–	(6)	(2)
Results from investments accounted for using the equity method	58	69	(2)	–	9	8	–	–	7	9
Invested capital	6,438	6,564	2,370	2,309	667	690	1,885	1,816	1,619	1,673

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards." Further details on segment reporting are presented in note 26 "Segment Reporting."
1) Operating EBITDA in percent of revenues.
2) The business development of Bertelsmann Investments is determined primarily on the basis of EBIT. EBIT amounted to €96 million (previous year: €141 million).

Reconciliation to Operating EBITDA (Continuing Operations)

in € millions	2018	2017
EBIT from continuing operations	1,620	1,896
Special items		
– impairment on goodwill and other intangible assets with indefinite useful life as well as gains from business combinations	173	30
– adjustment to carrying amounts on assets held for sale	6	4
– impairment on other financial assets at amortized cost	–	20
– impairment and reversals on investments accounted for using the equity method	2	50
– results from disposals of investments	(6)	(182)
– fair value measurement of investments	(157)	(15)
– restructuring and other special items	278	176
Amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment	847	691
Adjustments on amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment included in special items	(177)	(34)
Operating EBITDA from continuing operations	2,586	2,636

As of January 1, 2018, the new accounting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers were applied for the first time. In accordance with the transitional provisions of IFRS 9 and IFRS 15, prior year comparatives have not been adjusted. Further details are presented in the section "Impact of New Financial Reporting Standards."

	Bertelsmann Printing Group		Bertelsmann Education Group		Bertelsmann Investments[2]		Total divisions		Corporate		Consolidation		Continuing operations	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
	1,468	1,498	257	189	12	–	17,650	17,155	23	35	–	–	17,673	17,190
	171	183	1	–	–	–	273	290	32	39	(305)	(329)	–	–
	1,639	1,681	258	189	12	–	17,923	17,445	55	74	(305)	(329)	17,673	17,190
	85	118	37	3	(3)	(3)	2,688	2,686	(95)	(53)	(7)	3	2,586	2,636
	5.2%	7.0%	14.5%	1.8%	-25.8%	n/a	15.0%	15.4%	n/a	n/a	n/a	n/a	14.6%	15.3%
	(3)	–	(25)	–	–	–	(185)	(37)	–	–	2	–	(183)	(37)
	–	–	(5)	(16)	(10)	(6)	57	64	–	–	–	(1)	57	63
	187	172	1,422	904	899	576	15,487	14,704	124	99	(21)	(36)	15,590	14,767

Information by Geographical Areas (Continuing Operations)

	Germany		France		United Kingdom		Other European countries		United States		Other countries		Continuing operations	
in € millions	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from external customers	5,859	5,840	2,336	2,306	1,152	1,169	3,336	3,212	3,896	3,526	1,094	1,137	17,673	17,190
Non-current assets[1]	3,220	3,231	1,092	1,180	1,301	1,324	3,267	3,291	3,514	2,947	277	247	12,671	12,220

1) Non-current assets comprise property, plant and equipment, and intangible assets (including goodwill).
Details on segment reporting are presented in note 26 “Segment Reporting.”

Information on Revenue Sources (Continuing Operations)

	Own products and merchandise		Services		Advertising		Rights and licenses		Continuing operations	
in € millions	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Revenues from external customers	4,349	4,335	6,375	6,073	4,061	4,406	2,888	2,376	17,673	17,190

General Principles

The Bertelsmann SE & Co. KGaA Consolidated Financial Statements as of December 31, 2018, were prepared in accordance with International Financial Reporting Standards (IFRS) of the International Accounting Standards Board (IASB) and the related interpretations (IFRIC) of the IFRS Interpretations Committee (IFRS IC) that are applicable in the European Union (EU-IFRS). The supplementary requirements set out in section 315e of the German Commercial Code (HGB) were also met. The Consolidated Financial Statements are prepared in euros. Unless otherwise stated, all amounts are given in millions of euros (€ million). For the sake of clarity, certain items in the consolidated income statement, the consolidated statement of comprehensive income, the consolidated balance sheet and the consolidated cash flow statement are combined. These items are disclosed and explained in greater detail in the notes.

Bertelsmann SE & Co. KGaA is a partnership limited by shares with its registered office in Gütersloh, Germany. The address of the company's registered headquarters is Carl-Bertelsmann-Strasse 270, 33311 Gütersloh.

Bertelsmann is a media, services and education company that operates in about 50 countries around the world. The geographic core markets are Western Europe – in particular, Germany, France and the United Kingdom – and the United States. In addition, Bertelsmann is strengthening its involvement in growth markets such as Brazil, India and China. The Bertelsmann divisions are RTL Group (television), Penguin Random House (books), Gruner + Jahr (magazines), BMG (music), Arvato (services), Bertelsmann Printing Group (printing), Bertelsmann Education Group (education) and Bertelsmann Investments (funds). Further information on the main activities of Bertelsmann SE & Co. KGaA and its subsidiaries is presented in detail in the Combined Management Report.

Reconciliation of the Classes and Measurement Categories of Financial Assets from IAS 39 to IFRS 9 as of January 1, 2018

in € millions	Category in accordance with IAS 39						Balance as of 12/31/2017
	Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation	
Measurement	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
Loans	63	–	–	–	–	–	63
Investments in affiliates	–	3	15	–	–	–	18
Other investments	–	25	491	–	–	–	516
Securities and financial assets	–	1	3	19	–	–	23
Equity instruments and debt instruments (IFRS 9)	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Derivative financial instruments	–	–	–	–	87	4	91
Trade receivables	3,317	–	–	–	–	–	3,317
Receivables from participations	25	–	–	–	–	–	25
Sundry financial receivables	755	–	–	–	–	–	755
Cash	1,384	–	–	–	–	–	1,384
Other securities < 3 months	56	–	–	–	–	–	56
	5,600	29	509	19	87	4	6,248

Impact of New Financial Reporting Standards

With the exception of the new financial reporting standards IFRS 9 Financial Instruments and IFRS 15 Revenue from Contracts with Customers, the first-time application of new financial reporting standards and interpretations had no material impact on the Bertelsmann Group.

IFRS 9 Financial Instruments

IFRS 9 Financial Instruments replaces the provisions of IAS 39 concerning recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets, and hedge accounting. IFRS 9 introduces new rules for classifying and measuring financial assets and includes new rules for impairment of financial instruments. Details on the accounting and measurement policies applied to financial instruments in accordance with IFRS 9 since January 1, 2018, are presented on pages 65 f. and 68. Application of the standard is mandatory for financial years beginning on or after January 1, 2018. Bertelsmann makes use of the exception not to adjust prior year comparatives. As a result, only the Consolidated Opening Balance as of January 1, 2018, has been adjusted.

The table below (beginning on page 52) presents the classification and measurement categories for financial assets in accordance with IAS 39 as of December 31, 2017, the reconciliation to the new classification and measurement categories in accordance with IFRS 9, and the respective carrying amounts as of January 1, 2018.

Reclassifications	Change in measurement IFRS 9	Change in presentation IFRS 15	Balance as of 1/1/2018	Category in accordance with IFRS 9			
				At amortized cost	Fair value through other comprehensive income	Fair value through profit or loss	Derivatives with hedge relation
–	–	–	63	50	–	13	–
(18)	–	–	n/a	n/a	n/a	n/a	n/a
(516)	–	–	n/a	n/a	n/a	n/a	n/a
(23)	–	–	n/a	n/a	n/a	n/a	n/a
557	–	–	557	–	53	504	–
–	–	–	91	–	–	87	4
–	(11)	371	3,677	3,677	–	–	–
–	–	–	25	25	–	–	–
–	1	–	756	740	–	16	–
–	–	–	1,384	1,384	–	–	–
–	–	–	56	56	–	–	–
–	(10)	371	6,609	5,932	53	620	4

In accordance with the IFRS 9 classification and measurement approach for financial assets, there are three classification categories for financial assets in the Bertelsmann Group:

- at amortized cost,
- at fair value with changes in fair value through profit or loss (FVTPL) and
- at fair value with changes in fair value through other comprehensive income (FVOCI).

In accordance with IFRS 9, equity instruments where the Bertelsmann Group has neither control nor significant influence are classified as a rule at fair value through profit or loss. Bertelsmann exercises the option granted by IFRS 9 to measure at fair value through other comprehensive income mainly for individual immaterial investments. These equity instruments were already measured at fair value in accordance with IAS 39, so that as of January 1, 2018, there was no financial impact from the measurement of these financial instruments. As of January 1, 2018, and as of December 31, 2018, the Bertelsmann Group held no debt instruments measured at fair value through other comprehensive income. Certain investments in debt instruments, primarily so-called fund-of-fund investments purchased by the Bertelsmann Investments division, were reclassified into the category of fair value through profit or loss because their contractual cash flows did not represent solely principal and interest payments. With deferred taxes taken into consideration, the revised method for determining impairment of financial instruments results in an increase of impairment by €9 million, which was recognized in other retained earnings as of January 1, 2018.

The first-time application of IFRS 9 had no impact on the classification and measurement of financial liabilities. Within the class of derivative financial instruments in hedge relationships, there were no reclassifications due to the first-time application of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 Revenue from Contracts with Customers includes new comprehensive regulations for the recognition of revenue that are independent of a specific industry or transaction. The new standard replaces the current risk and reward approach with a contract-based five-step model. In addition to substantially more extensive application guidance for the accounting treatment of revenue from contracts with customers, there are more detailed disclosure requirements in the notes. Application of the standard is mandatory for financial years beginning on or after January 1, 2018. The modified retrospective method was used for the transition to IFRS 15. For its first-time application, Bertelsmann has applied the expedients provided in the standard for the modified retrospective method. The immaterial cumulative effect of the first-time application as of January 1, 2018, was recognized in other retained earnings. Prior year comparatives were not adjusted. As a result of the accounting treatment of expected returns, which are no longer offset with the receivables, but which are included in the balance sheet position "Trade and other payables," total assets increased by €371 million as of January 1, 2018. The corresponding effects on the balance sheet position "Trade receivables" as of January 1, 2018, are shown in the table "Reconciliation of the Classes and Measurement Categories of Financial Assets from IAS 39 to IFRS 9 as of January 1, 2018" presented in the section "IFRS 9 Financial Instruments." With regard to certain digital products and certain services, presentation of revenue and expenses change as a result of the new standard. Based on a more specific concept of the term "customer" or more specific definition of the term "customer," the control concept underlying IFRS 15 and the application of the enhanced principal-agent approach, revenue is recognized in the amount of the retail price to the end consumer, and revenue previously reported as other operating income will now be presented as revenue. Furthermore, advertising subsidies paid to customers are no longer recognized under expenses but result in a reduction in revenues. With regard to the income statement, the above-mentioned changes in presentation due to the introduction of IFRS 15 lead in total to an increase in revenues of €309 million with a corresponding increase in other operating expenses of €137 million and reduction in other operating income of €172 million.

Details on the accounting and measurement policies applied on revenue recognition in accordance with IFRS 15 since January 1, 2018, are presented on pages 62 f.

Impact of Issued Financial Reporting Standards that Are Not Yet Effective

The Bertelsmann Group has not opted for early adoption of any additional standards, interpretations or amendments that have been issued by the IASB or the IFRS IC but are not yet mandatory. IFRS 16 Leases is a financial reporting standard that is not yet effective and will have a material impact on Bertelsmann.

IFRS 16 Leases, issued in January 2016, sets out principles for recognition, measurement, presentation and disclosure requirements for leases. The changes mainly affect lessee accounting and generally require lessees to recognize contractual rights and obligations on the lessee's balance sheet. The Bertelsmann Group will apply IFRS 16 to all contracts previously identified as leases under IAS 17 and IFRIC 4. Short-term leases with a lease term of up to one year, and leases covering low-value assets for which the Bertelsmann Group does not recognize a right-of-use asset to use the leased object or a lease liability, constitute an exception. The new standard replaces the straight-line recognition of operating lease expense in accordance with IAS 17 with the recognition of depreciation expenses for the right-of-use asset and interest expenses on the lease liability (included within the financial result). In addition, IFRS 16 includes more extensive disclosures in the notes for lessees.

Application of the standard is mandatory for financial years beginning on or after January 1, 2019. IFRS 16 was introduced in the Bertelsmann Group as part of a Group-wide transition project. Under this project, initially, Bertelsmann Group's material lease agreements were analyzed to determine the approach for the initial application of IFRS 16, among other things. In addition, the analysis focused on separating the lease and non-lease components of a contract, defining guidelines for determining the lease term taking into account renewal or termination options, and setting discount rates for calculating the lease liability. The complete analysis of IFRS 16 took place decentrally in the Group companies by conducting an inventory of leases. The vast majority of leases in the Bertelsmann Group concern rental properties in the RTL Group and Penguin Random House divisions. In addition, leases also exist for technical equipment and machinery, vehicles and other fixtures, furniture and office equipment. As part of the project, adjustments have been made to the reporting systems, chart of accounts and disclosure templates. As of January 1, 2019, Bertelsmann had assessed the anticipated impact of implementing IFRS 16 on the balance sheet and income statement on a Group-wide basis.

The modified retrospective approach is used for first-time application at Bertelsmann; prior year comparatives are not adjusted. For individual real estate leases, on the date the standard is applied for the first time, the Bertelsmann Group will recognize the right-of-use asset at an amount as if IFRS 16 had been applied since commencement date of the leases. In all other cases, the right-of-use asset corresponds to the amount of the lease liability on the date of first-time application, adjusted by the amounts for any prepaid or accrued lease payments. Due to the recognition of the right-of-use asset in relation to the underlying leased objects and due to the recognition of the lease liability, the application of IFRS 16 will have a material impact on the consolidated balance sheet of the Bertelsmann Group. According to current calculations, the first-time application of IFRS 16 will result in the recognition of right-of-use assets and lease liabilities in an amount between €1.2 billion and €1.3 billion in the consolidated balance sheet as of January 1, 2019, in addition to the finance leases already existing under IAS 17. First-time application of IFRS 16 will create temporary differences and the corresponding deferred taxes on the right-of-use assets and the lease liability. For first-time application, the right-of-use assets are not tested for impairment. Instead, existing provisions for onerous leases are offset against the corresponding right-of-use assets. Going forward, depreciation on the right-of-use assets and the interest expense for the lease liabilities will be recognized on the consolidated income statement in place of other operating expenses for operating leases. Accordingly, the introduction of IFRS 16 on the basis of the portfolio of lease contracts as of January 1, 2019, will result in an improvement of EBITDA by approximately €250 million to €260 million. In the consolidated statement of cash flows, the application of IFRS 16 will result in an improvement of cash flows from operating activities, while the lease payments will reduce the cash flows from financing activities.

Consolidation

Principles of Consolidation

The Bertelsmann Consolidated Financial Statements include the financial statements of the parent company and its subsidiaries, joint ventures and associates.

Subsidiaries are companies controlled by Bertelsmann SE & Co. KGaA in accordance with IFRS 10. Consolidation begins on the date on which the ability to exercise control exists and ends when Bertelsmann loses the ability to exercise control. Profit or loss and each component of total comprehensive income are attributed to the shareholders of the parent company and the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. In accordance with IFRS 3, business combinations are accounted for using the acquisition method. Non-controlling interests are measured at the proportionate fair value of the assets and liabilities. If the consideration transferred for the business combination or the fair values attributable to the identifiable assets and liabilities of the company acquired can only be provisionally identified on the date of initial accounting, the business combination is accounted for using these provisional values. Initial accounting is completed in accordance with IFRS 3.45, taking into account the one-year measurement period. Comparative information for reporting periods prior to the completion of initial accounting is presented as if it had already been completed on the acquisition date. Changes in the parent's ownership interest in a subsidiary that do not lead to a loss of control are accounted for as equity transactions. After the loss of control of a subsidiary, it is deconsolidated in accordance with the requirements of IFRS 10. Any investment retained in the former subsidiary as well as any amounts owed by or to the former subsidiary are accounted for in accordance with the applicable IFRSs from the date when control is lost.

Joint ventures in accordance with IFRS 11 and associates are included in the Consolidated Financial Statements using the equity method in accordance with IAS 28. Associates are companies over which Bertelsmann exercises a significant influence. This is generally the case for voting rights between 20 percent and 50 percent. Smaller shareholdings are accounted for using the equity method if there is a significant influence in accordance with IAS 28.6. The portfolio of investments held by the Bertelsmann Investments division includes, among others, investments in associates. In the financial year 2018, the division's companies meet the criteria of IAS 28.18 as investors for the first time, since their interests in associates – in line with the other minority stakes held – are now managed on the basis of a systematic valuation process at the fair value of these investments and their performance. As a result, Bertelsmann decided to make use of the exception rule in IAS 28.18 and to measure such interests at fair value through profit or loss in accordance with IFRS 9. The immaterial restatement effect of the investments previously accounted for using the equity method with a carrying amount of €222 million amounts to €6 million. When changing the accounting treatment of investments to the equity method, IFRS 3 is applied correspondingly so that the fair value of the previously held interest is used in determining the cost of the investment, accounted for using the equity method on the transition date. The difference between the fair value and the carrying amount of the previously held interest is recognized in profit or loss. When applying the equity method to an associate or joint venture that is an investment entity, Bertelsmann, which is a non-investment entity, generally retains as investor the fair value measurement applied by the associate or joint venture to its interests in subsidiaries.

The Bertelsmann Group recognizes immaterial investments in accordance with IFRS 9.

Scope of Consolidation

Bertelsmann is the majority shareholder of RTL Group with an interest of 75.1 percent and Penguin Random House with an interest of 75 percent. Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments are each wholly owned by Bertelsmann.

Composition of Scope of Consolidation

	Subsidiaries		Joint ventures[2]		Associates[2]		Total	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017	12/31/2018	12/31/2017
RTL Group	299	291	14	15	41	37	354	343
Penguin Random House	102	93	–	–	1	1	103	94
Gruner + Jahr	101	118	4	7	1	1	106	126
BMG	73	69	1	1	–	–	74	70
Arvato	196	188	4	4	1	1	201	193
Bertelsmann Printing Group	39	39	1	1	–	–	40	40
Bertelsmann Education Group	31	25	–	–	4	5	35	30
Bertelsmann Investments	12	8	1	–	–	18	13	26
Corporate[1]	48	48	–	–	–	–	48	48
Total	901	879	25	28	48	63	974	970

1) Including Bertelsmann SE & Co. KGaA.
2) The joint ventures and associates included in the table are investments accounted for using the equity method.

Changes in Scope of Consolidation

	Germany	France	United Kingdom	Other European countries	United States	Other countries	Total
Consolidated as of 12/31/2017	288	116	125	187	91	163	970
Additions	12	14	16	22	5	14	83
Disposals	20	16	5	11	3	24	79
Consolidated as of 12/31/2018	280	114	136	198	93	153	974

A total of 209 (previous year: 213) companies were excluded from the scope of consolidation. These consist of the associates in the portfolio of the Bertelsmann Investments division and entities without significant business operations and of negligible importance for the financial position and financial performance of the Bertelsmann Group. The complete list of the Bertelsmann Group's shareholdings will be published in the "Bundesanzeiger" ("Federal Gazette") as an annex to these Consolidated Financial Statements in accordance with section 313 (2) of the German Commercial Code and will be presented at the General Meeting.

Acquisitions and Disposals

In the financial year 2018, the cash flow from acquisition activities totaled €-556 million (previous year: €-213 million), of which €-508 million (previous year: €-178 million) related to new acquisitions during the reporting period less cash and cash equivalents acquired. The consideration transferred in accordance with IFRS 3 amounted to €375 million (previous year: €273 million) taking into account contingent consideration of €8 million (previous year: €19 million). In addition, put options in the amount of €9 million (previous year: €12 million) related to the acquisitions were accounted for.

In February 2018, Bertelsmann Education Group increased its interest in the US university services provider HotChalk by 36 percent through the conversion of a loan granted, the conversion of previously held shares into newly issued shares, and the direct acquisition of additional shares. The acquisition of the majority interest in HotChalk strengthens Bertelsmann Education Group's position in the services segment of the US education market. As a result of obtaining control, the investment previously accounted for using the equity method is fully consolidated from the date of acquisition. The consideration transferred was €28 million, of which a cash contribution to HotChalk amounted to €11 million. Obtaining control led to a derecognition of the investment previously accounted for using the equity method, whose fair value amounted to €127 million immediately before the acquisition date, and to a reclassification of the associated share of other comprehensive income of investments accounted for using the equity method amounting to €-14 million in profit or loss in the item "Results from disposals of investments." The remeasurement of the investment already held resulted in other operating income of €2 million. In connection with the acquisition of the majority interest in HotChalk, tax loss carryforwards of €131 million were assumed which can be used in the future as part of the inclusion of HotChalk in Bertelsmann's US tax group. The valuation of the loss carryforwards resulted in deferred tax assets of €28 million. Non-tax-deductible goodwill from the purchase price allocation amounted to €71 million, resulting primarily from potential new customers, employees taken over and synergies and forms the Education Services cash-generating unit. Transaction-related costs were not material in the financial year 2018 and have been recognized in profit or loss. The initial consolidation led to an immaterial increase in Group revenues and an immaterial decrease in Group profit or loss. Consolidation of HotChalk from January 1, 2018, would have also resulted in an immaterial increase in Group revenues and an immaterial decrease in Group profit or loss.

In November 2018, Bertelsmann Education Group acquired an interest of 100 percent in the US online education provider OnCourse Learning from the private equity company CIP Capital. Based in Brookfield, Wisconsin, the company provides digital corporate and advanced training courses to clients in the healthcare and financial services sectors. The healthcare sector further strengthens the activities of Relias, a business of Bertelsmann Education Group. The range of advanced training courses in financial services adds another rapidly growing market segment. The consideration transferred of €280 million includes a preliminary working capital adjustment of €-18 million in addition to the purchase price paid in cash. In addition to the consideration transferred, financial debt in the amount of €165 million was repaid. The purchase price allocation resulted in goodwill of €363 million, which is tax deductible in the amount of €76 million, mainly representing future growth potential in the customer base and further synergies between education companies. The goodwill was allocated to the Online Learning and Other cash-generating units of the Bertelsmann Education Group. The purchase price allocation is still preliminary due to the proximity of the acquisition to the end of the reporting period. In the financial year 2018, transaction-related costs amounted to €2 million and have been recognized in profit or loss. The initial consolidation led to an increase in Group revenues of €11 million and a decrease in Group profit or loss of €-5 million. Consolidation of OnCourse Learning from January 1, 2018, would have resulted in an increase in the Group revenues of €75 million and a decrease in Group profit or loss of €-23 million.

In addition, the Bertelsmann Group made several acquisitions in the financial year 2018, none of which was material on a stand-alone basis. Payments net of acquired cash and cash equivalents amounted to €49 million; the consideration transferred in accordance with IFRS 3 for these acquisitions amounted to €66 million, taking into account contingent consideration of €8 million. The other acquisitions resulted in goodwill totaling €49 million, reflecting synergy potential and which is not tax-deductible. Transaction-related costs were not material in the financial year 2018 and have been recognized in profit or loss.

The purchase price allocations consider all the facts and circumstances prevailing as of the respective dates of acquisition that were known prior to the preparation of the Consolidated Financial Statements. In accordance with IFRS 3, should further facts and circumstances become known within the 12-month measurement period, the purchase price allocation will be adjusted accordingly.

The following table shows the fair values of the assets and liabilities of the acquisitions on their dates of initial consolidation based on the purchase price allocations, some of which are currently preliminary:

Effects of Acquisitions

in € millions	HotChalk	OnCourse Learning	Other	Total
Non-current assets				
Goodwill	71	363	49	483
Other intangible assets	89	108	34	231
Property, plant and equipment	1	2	–	3
Trade and other receivables	–	–	5	5
Other non-current assets	37	–	2	39
Current assets				
Inventories	–	1	1	2
Trade and other receivables	2	8	6	16
Other current assets	1	1	3	5
Cash and cash equivalents	13	3	6	22
Liabilities				
Financial debt	(20)	(170)	(2)	(192)
Other financial and non-financial liabilities	(22)	(35)	(23)	(80)
Fair value of pre-existing interests	(127)	–	(12)	(139)
Non-controlling interests	(17)	–	(3)	(20)

Since initial consolidation, all new acquisitions in accordance with IFRS 3 in the financial year 2018 have contributed €85 million to revenue and €-48 million to Group profit or loss. If consolidated as of January 1, 2018, these would have contributed €169 million to revenue and €-64 million to Group profit or loss. On the acquisition date, the fair value of the acquired receivables was €21 million. Of that amount, €16 million is attributable to trade receivables and €5 million to other receivables. Trade receivables are impaired in the amount of €4 million, so that the gross amount of trade receivables amounts to €20 million. The other receivables were not impaired, so that the fair value is equal to the gross amount.

In accordance with IFRS 3, the fair values of the identifiable assets, liabilities and contingent liabilities acquired are measured primarily using the market price-oriented method. According to this method, assets and liabilities are measured at the prices observed in active markets. If measurement using the market price-oriented method is not feasible, as a rule the capital value-oriented method is to be applied. According to that method, the fair value of an asset or a liability corresponds to the present value of the future cash inflows or outflows (cash flows).

In November 2018, Groupe M6, which belongs to RTL Group, sold its investment in the French premier league club FC Girondins de Bordeaux (FCGB) to the US-based investment fund General American Capital Partners (GACP) for €50 million, net of transaction-related costs. The sale resulted in a loss of €-7 million recognized in the item "Results from disposals of investments." In addition, loans of €41 million granted to FCGB in connection with the sale were repaid.

After considering the cash and cash equivalents disposed of, the Bertelsmann Group recorded cash flows in the amount of €113 million (previous year: €4 million) from all disposals. The disposals resulted in a loss from deconsolidation of €-4 million (previous year: €-10 million), which is recognized in the item "Results from disposals of investments." The following table shows their impact on the Bertelsmann Group's assets and liabilities at the time of deconsolidation:

Effects of Disposals

in € millions	Football Club Girondins de Bordeaux	Other	Total
Non-current assets			
Goodwill	12	14	26
Other intangible assets	46	6	52
Property, plant and equipment	6	13	19
Other non-current assets	–	1	1
Current assets			
Inventories	2	3	5
Other current assets	70	27	97
Cash and cash equivalents	4	9	13
Liabilities			
Provisions for pensions and similar obligations	1	5	6
Financial debt	–	2	2
Other financial and non-financial liabilities	41	24	65

Discontinued Operations

Earnings after taxes from discontinued operations of €1 million (previous year: €-7 million) comprise follow-on effects related to the disposal of companies of the former Direct Group division.

Assets Held for Sale and Liabilities Related to Assets Held for Sale

The carrying amounts of the assets classified as held for sale and related liabilities are presented in the following table:

Assets Held for Sale and Related Liabilities

in € millions	12/31/2018	12/31/2017
Assets		
Non-current assets		
Goodwill	13	–
Other intangible assets	6	1
Other non-current assets	16	–
Current assets		
Inventories	35	–
Trade and other receivables	12	1
Other current assets	1	–
Cash and cash equivalents	–	2
Impairment on assets held for sale	(1)	(1)
Assets held for sale	82	3
Equity and liabilities		
Non-current liabilities		
Provisions for pensions and similar obligations	5	–
Financial debt	6	–
Trade and other payables	1	1
Current liabilities		
Other provisions	1	–
Financial debt	2	–
Trade and other payables	46	1
Other current liabilities	2	1
Liabilities related to assets held for sale	63	3

The carrying amounts of the assets classified as held for sale and related liabilities are mainly attributable to the RTL Group as of December 31, 2018. The item “Other non-current assets” mainly relates to deferred tax assets in the amount of €14 million. In February 2019 – during the preparation period of the Consolidated Financial Statements – Mediengruppe RTL Deutschland, which belongs to RTL Group, announced that it had signed an agreement to sell its subsidiary Universum Film to the investment firm KKR. The sale is still subject to approval by the relevant authorities.

For disposal groups, which are measured at fair value less costs to sell, impairment losses were recognized in the amount of €-6 million, which were attributable to planned disposals in the Arvato and Gruner + Jahr divisions. The fair values are based on level 3 of the hierarchy of non-recurring fair values. Valuations for level 3 are based on information from the contract negotiations. The impairment losses are recognized in profit or loss in the item “Other operating expenses.”

Foreign Currency Translation

Transactions denominated in a currency other than a subsidiary's functional currency are recognized in the functional currency at the exchange rate applicable on the day of their initial accounting. At the end of the reporting period, monetary assets and liabilities denominated in foreign currency are revalued into the functional currency using the closing rate applicable at that time. Gains and losses from these foreign currency translations are recognized in profit or loss. Nonmonetary balance sheet items in foreign currency are carried at the historical exchange rate.

The financial statements of subsidiaries, joint ventures and associates that were prepared in foreign currencies are translated into euros using the functional currency concept set out in IAS 21 before they are included in the Consolidated Financial Statements. Assets and liabilities are translated into the reporting currency at the closing rate at the end of the reporting period, while income statement items are translated at the average rate for the financial year. Foreign currency translation differences are recognized in other comprehensive income. Such differences arise from translating items in the balance sheet at a closing rate that differs from the previous closing rate, and from using the average rate for the period and the closing rate at the end of the reporting period to translate the Group profit or loss. At the time of deconsolidation of Group companies, the respective accumulated exchange differences recognized in other comprehensive income and accumulated in a separate component of equity are reclassified from equity to the income statement. The following euro exchange rates were used for currency translation purposes for the most significant foreign currencies for the Bertelsmann Group.

Euro Exchange Rates for Significant Foreign Currencies

		Average rates		Closing rates	
Foreign currency unit per €1		2018	2017	12/31/2018	12/31/2017
Australian dollar	AUD	1.5799	1.4733	1.6220	1.5346
Canadian dollar	CAD	1.5301	1.4645	1.5605	1.5039
Chinese renminbi	CNY	7.8077	7.6278	7.8751	7.8044
British pound	GBP	0.8847	0.8766	0.8945	0.8872
US dollar	USD	1.1817	1.1295	1.1450	1.1993

Accounting and Measurement Policies

Recognition of Income and Expense

Revenues from contracts with customers are recognized in accordance with IFRS 15. Under this standard, a contract-based five-step model is used to first identify and distinguish the relevant contracts with customers. In a next step, the separate performance obligations explicitly or implicitly stipulated in the contract are identified, and the contract is examined for fixed and variable consideration in order to use this as a basis for determining the respective transaction price. In doing so, constraining estimates of variable consideration are adequately taken into account. If more than one separate performance obligation is identified in a contract, the transaction price is then allocated to the identified performance obligations using the method of relative stand-alone selling prices, which are generally determined as prices on the markets relevant for the respective customers. Revenue recognition occurs upon satisfaction of the performance obligation either at a point in time or over time, depending on the underlying business model. If necessary, the extensive principal-agent considerations presented in IFRS 15 are also taken adequately into account in analyzing the contracts.

The prioritization of the five steps depends on the design of the underlying business model. Based on the underlying revenue sources in the Bertelsmann Group, the following key aspects are taken into consideration for revenue recognition:

- Own products and merchandise: As a rule, the revenues resulting from these contracts are recognized at a point in time when control is transferred. Depending on the underlying respective terms of sale, this is generally upon delivery to the customer. Expected returns from sales of products, mainly from physical books and magazines, are shown as liabilities in the balance sheet position "Trade and other payables." Return assets are presented in the balance sheet position "Other non-financial assets." In certain business models at Gruner + Jahr, giveaways to customers meet the criteria of a separate performance obligation. Any giveaways to an agent are capitalized as costs to obtain a contract and are amortized over the expected term of the subscription.

- Services: Services are generally rendered over a period of time, and the revenue is recognized based on an appropriate output method or input method for measuring progress. If permissible, revenues are recognized in the amount of the invoice if this amount corresponds to the value of the performance provided. Revenue from financial services is presented separately as revenue if it results primarily from interest rate effects.
- Advertising: Advertising services are generally rendered over a period of time, and revenue is recognized on the basis of an appropriate output method for measuring progress. If several performance obligations are identified in an advertising contract, the transaction price is allocated on the basis of the relative stand-alone selling prices.
- Rights and licenses: The timing of revenue recognition for business models generating revenue from licenses depends on whether the license represents a right to access the intellectual property through the entire licensing period or a right to use when the license is granted. In particular, the underlying contracts are analyzed to determine whether the customer is exposed to significant changes to the intellectual property or whether the intellectual property remains in the condition defined upon entering into the contract throughout the term of the contract with regard to its content and scope. While revenues from licenses granted for a right to use are realized at the date of the transfer of control, revenues from licenses for rights to access are realized over a period of time throughout the term of the contract. The majority of licenses granted in the TV business represents a right to use of intellectual property at the date the license is granted, and as a result, revenue is recognized at the point in time the license is granted to the licensee whereas in the music business rights to access are extensively used with revenues recognized throughout the term of the contract.

IFRS 15 stipulates some practical expedients of which the following are applied in the Bertelsmann Group:

- Costs of obtaining contracts are not capitalized if the underlying asset is amortized in no more than 12 months.
- The value of consideration is not adjusted for the effects of a material financing component if the financing component pertains to a period of no more than 12 months.
- For contracts with an original duration of not more than 12 months and for contracts for which revenue can be recognized according to the amount invoiced for simplification purposes, no disclosure of the aggregated transaction price is provided.

Payments received before satisfaction of the corresponding performance obligation are recognized as contract liability. If contractual provisions make the invoicing of services completed to date causally dependent on the need to provide further goods or services, a contract asset is recognized. Receivables from contracts with customer are generally due in less than 12 months.

Interest income and expenses relating to financial assets measured at amortized cost are recognized on an accrual basis using the effective interest method in accordance with IFRS 9. Dividends are only recognized in profit or loss when the right to receive payment of the dividend is established. Other income is recognized when the economic benefits are probable and the amount can be measured reliably. Expenses are deferred on the basis of underlying facts or the period of time to which they relate.

Goodwill

In accordance with IFRS 3, goodwill resulting from a business combination is initially recognized at acquisition cost, with subsequent recognition at cost less accumulated impairment losses. Goodwill is subject to impairment testing at least annually in accordance with IAS 36. In the Bertelsmann Group, goodwill is tested for impairment as outlined in the section “Impairment Losses.”

Other Intangible Assets

Non-current, internally generated intangible assets are capitalized at cost in accordance with IAS 38, if the corresponding requirements have been met. Intangible assets acquired separately are carried at acquisition cost less accumulated amortization and accumulated impairment losses, also in accordance with IAS 38. Intangible assets acquired as part of a business combination are initially recognized at fair value on the acquisition date in accordance with IFRS 3. Intangible assets with finite useful life are amortized on a straight-line basis over their estimated useful life. Impairment losses and reversals of impairment losses are determined by applying the requirements for impairment testing in accordance with IAS 36. As a rule, capitalized software has a useful life of between three and five years. Acquired customer relationships are amortized over a period of two to 15 years, while the amortization period for trademarks and music and publishing rights is three to 25 years. Licenses are amortized on a straight-line basis over the term of the license agreement or depending on performance (based on the ratios of income from use generated in the reporting period to the estimated total income from use over the entire useful life). Intangible assets with indefinite useful life are not amortized. Instead, they are subject to at least annual impairment testing in accordance with IAS 36 and, if applicable, written down to their recoverable amount.

Property, Plant and Equipment

Items of property, plant and equipment are accounted for in accordance with IAS 16 and carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is determined on a straight-line basis over the estimated useful life of the asset. In the financial year 2018, depreciation was generally based on the following useful lives:

- buildings: 10 to 50 years
- technical equipment and machinery: four to 15 years
- other equipment, fixtures, furniture and office equipment: three to 15 years

Land is not subject to depreciation.

Impairment Losses

Goodwill and intangible assets with indefinite useful life are tested for impairment in accordance with IAS 36 annually, as of December 31 and if a triggering event occurs. Intangible assets with a finite useful life and property, plant and equipment are tested for impairment at the end of each reporting period in accordance with IAS 36 only if there are any indications of impairment. An impairment loss in accordance with IAS 36 has occurred when the carrying amount of an asset or cash-generating unit exceeds its recoverable amount. The recoverable amount is the higher of fair value less costs of disposal and value in use. Fair value less costs of disposal and the value in use are generally determined using the discounted cash flow method, which is based on future cash flow forecasts, which are part of company forecasts. For assets held for sale, only fair value less costs to sell is used as a basis for comparison.

For determining the value in use, estimated future cash inflows or outflows from future restructurings or from improvement or enhancement of the cash-generating units' performance are excluded unless, as of the end of the reporting period, the cash-generating unit is committed to the restructuring and related provisions have been made. If an active market exists, the market price or, if applicable, the price in the most recent comparable transaction, is used for fair value measurement. If there is no active market, fair value less costs of disposal is generally calculated using the discounted cash flow method. If it is not possible to allocate cash flows to assets, the relevant impairment losses are determined on the basis of cash flows attributable to the cash-generating unit to which the assets belong. Projected cash flows are based on internal estimates for three planning periods. Generally, two further detailed planning periods are applied in addition. For periods beyond this detailed horizon, a perpetual annuity is recognized, taking into account individual business-specific growth rates. Discounting is generally based on the weighted average cost of capital (WACC) after tax. Specific WACCs are derived for cash-generating units with different risk profiles. The Bertelsmann Group performs sensitivity analyses on the cash-generating units, especially on those where the headroom between the recoverable amount and the carrying amount is low.

If the reasons for an impairment loss recognized in prior periods no longer exist, the impairment loss is reversed up to a maximum of the carrying amount of the respective asset if the impairment loss had not been recognized. The latter does not apply to goodwill. Impairment losses and reversals of impairment losses are both recognized immediately in profit or loss.

Leases

On the date the lease agreement is entered into, a lease is classified as a finance lease or an operating lease in accordance with IAS 17. A lease is classified as a finance lease if substantially all the risks and rewards incidental to ownership are transferred to the Bertelsmann Group. An operating lease is a lease not classified as a finance lease. Lease payments for operating leases are recognized in profit or loss under "Other operating expenses" using the straight-line method over the lease term.

Financial Assets

In accordance with the IFRS 9 classification and measurement approach for financial assets, there are three classification categories for financial assets in the Bertelsmann Group:

- at amortized cost,
- at fair value with changes in fair value through profit or loss (FVTPL) and
- at fair value with changes in fair value through other comprehensive income (FVOCI).

The allocation to the respective classification categories is based on the following criteria:

- the entity's business model for managing the financial assets and
- contractual cash flow characteristics of the financial asset.

Financial assets are recognized initially at fair value, taking into account transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets recognized at fair value through profit or loss are expensed in profit or loss.

Subsequent measurement of financial instruments depends on the classification categories:

- At amortized cost: Financial assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest on the principal amount outstanding are measured at amortized cost. This category mainly comprises trade receivables and other financial receivables. Any gain or loss arising on derecognition and impairment losses are recognized directly in profit or loss.
- FVOCI: Financial assets that are held for collection of contractual cash flows and for selling, where the assets' cash flows represent solely payments of principal and interest on the principal amount outstanding, are measured at fair value with changes in fair value through other comprehensive income. The Bertelsmann Group held no debt instruments measured at fair value through other comprehensive income. Bertelsmann exercises the option for measurement of equity instruments at fair value through other comprehensive income mainly for individual immaterial investments. With deferred taxes taken into consideration, the gains and losses resulting from fluctuations in the fair value of these equity instruments are recognized through other comprehensive income. Gains and losses from the fair value are not reclassified to the income statement after derecognition of the equity instruments. Dividends from such equity instruments continue to be recognized in profit or loss.
- FVTPL: Financial assets that do not meet the criteria for amortized cost or FVOCI are measured at fair value through profit or loss. With deferred taxes taken into consideration, the gains and losses resulting from fluctuations in the fair value are recognized in profit or loss.

Impairment and measurement of expected credit losses:
Bertelsmann applies for debt instruments at amortized cost and for contract assets the expected credit loss (ECL) model in accordance with IFRS 9. Accordingly, the amount of expected credit losses recognized as a loss allowance depends on the extent to which the default risk has deteriorated since initial recognition. According to the so-called general approach, a distinction is made between the following two measurement bases:

- 12-month ECL: At initial recognition and if the default risk has not increased significantly from the initial recognition of the debt instrument, a loss allowance is recognized for expected credit losses within the next 12 months.
- Lifetime ECL: If the default risk has increased significantly, a loss allowance for expected credit losses is recognized for the entire life of the debt instrument.

A default of a financial asset is assumed at the latest when the counterparty fails to make contractual payments within 90 days of when they fall due, unless reasonable and supportable information is available that justifies a different time of overdue payment.

For trade receivables and contract assets, Bertelsmann uses a simplified approach to measure expected credit losses. According to this, the loss allowance is measured using lifetime expected credit losses. For this purpose, impairment matrices based on historic bad debt losses, maturity bands and expected credit losses were prepared. The impairment matrices were created for division-specific or business-unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Contract assets have substantially the same risk characteristics as trade receivables for the same types of contracts so that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Measurement at Fair Value

In the case of financial assets and financial liabilities measured at fair value, the valuation technique applied depends on the respective inputs present in each case. If listed prices can be identified for identical assets on active markets, they are used for measurement (level 1). If this is not possible, the fair values of comparable market transactions are applied, and financial methods that are based on observable market data are used (level 2). If the fair values are not based on observable market data, they are identified using established financial methods or on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and developmental cycle of the respective entity (level 3).

Inventories

Inventories – including raw materials and supplies, finished goods, work in progress and merchandise – are accounted for in accordance with IAS 2 and recognized at the lower of historical cost or net realizable value at the end of the reporting period. Similar inventories are measured at average cost or using the FIFO (first-in, first-out) method. In addition, inventories include all short-term film, television and similar rights that are intended for broadcast or sale within the Group's normal operating cycle. In particular, this includes films and TV shows currently in production, co-productions and acquired broadcasting rights. The carrying amount of such items at the end of the reporting period is the lower of historical cost or net realizable value. The consumption of film and television rights starts from the date of initial broadcast and depends either on the number of planned broadcasts or the expected revenues. The broadcast-based consumption of film and television rights is as follows:

- Free television thematic channels: Program rights are consumed on a straight-line basis over a maximum of six runs.
- Free television other channels:
  - Entertainment programs such as soap operas, documentaries, sports, and quiz or music programs are written off in full at the initial broadcast date.
  - Fifty percent of the carrying amount of children's programs and cartoons is written off at each of the first two broadcast dates.
  - The consumption of cinema productions and TV feature films and series also spans a maximum of two broadcasts: 67 percent of the value is consumed upon the first broadcast and the remaining 33 percent upon the second broadcast.
- Pay television channels: Program rights are consumed on a straight-line basis over the license period.

The consumption of inventories and current film and television rights, changes in inventories of work in progress and finished goods, as well as own costs capitalized, are recognized in the income statement in the position "Cost of materials."

Income Taxes

In accordance with IAS 12, current income taxes are calculated on the basis of the respective entity-specific taxable income of the financial year. For the calculation of current and deferred taxes, the applicable tax laws and tax jurisdictions of the respective country in which the consolidated Group companies are registered are considered. In the case of existing tax groups and tax-transparent entities, current and deferred taxes are accounted for in accordance with the applicable tax requirements in each case, and from the perspective of the formally applicable company laws. Accordingly, current and deferred taxes within Consolidated Financial Statements are recognized on the level of the entity carrying the tax liability.

In accordance with IAS 12, deferred tax assets and liabilities are recognized for temporary differences between the tax base and the carrying amounts shown on the IFRS consolidated balance sheet, and for as-yet-unused tax loss carryforwards and tax credits. Deferred tax assets are recognized only to the extent that it is probable that taxable income will be available against which the deductible temporary difference can be utilized. Deferred tax assets that are unlikely to be realized within a clearly predictable period are reduced by valuation allowances. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets and liabilities resulting from business combinations are recognized, with the exception of temporary differences on goodwill not recognizable for tax purposes. The tax rates applied for computation are those expected as of the date of reversal of temporary differences and use of tax loss carryforwards, respectively. As a rule, deferred taxes are recognized in profit or loss unless they relate to items recognized in other comprehensive income. In this case, deferred taxes are recognized in other comprehensive income.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income includes net exchange differences and gains and losses from the fair value measurement of equity instruments with changes through other comprehensive income (IFRS 9 classification category FVOCI) and of derivatives used to hedge future cash flows (cash flow hedges) in accordance with IFRS 9.

In addition, in accordance with IAS 28.10, changes in other comprehensive income for entities accounted for using the equity method are recognized. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the returns implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized in the retained earnings in the year in which these gains and losses are incurred as part of the reconciliation of total comprehensive income for the period in the statement of changes in equity. Deferred taxes on the aforementioned items are also recognized directly in equity.

Provisions

Provisions for pensions and similar obligations are calculated using the projected unit credit method in accordance with IAS 19. The net interest expense included in pension expense is recognized in the financial result. Remeasurement effects of defined benefit pension plans (actuarial gains and losses on the defined benefit obligation, differences between actual investment returns and the returns implied by the net interest cost on the plan assets, and effects of the asset ceiling) are recognized immediately in equity under other comprehensive income and are not reclassified to profit or loss in a subsequent period (recycled). With the exception of the other personnel-related provisions calculated in accordance with IAS 19, all other provisions are recognized in accordance with IAS 37. Provisions are measured in the amount of the most likely outcome. Non-current provisions are discounted. The discount rates take into account current market expectations and, if necessary, specific risks for the liability. As a rule, income from the reversal of provisions is generally included in the income statement line item to which the provision was previously charged.

Financial Liabilities

Trade payables and other primary financial liabilities, including profit participation certificates, are initially measured at their fair value less transaction costs. Subsequent measurement is based on amortized cost using the effective interest method, unless the financial liability is classified as initially recognized at fair value through profit or loss. Finance lease liabilities, which are also recognized under financial liabilities, are carried at their net present value in accordance with IAS 17. Future payments related to put options issued by the Bertelsmann Group on the equity interests of subsidiaries are accounted for as a financial liability. The liability is initially recognized at the present value of the redemption amount with a corresponding charge directly to equity. In case of a business combination with the transfer to the Bertelsmann Group of the risks and rewards of the non-controlling interests underlying the put option, the goodwill increases by a corresponding amount upon initial recognition. Subsequent measurement of liabilities from put options is recognized in profit or loss.

Derivative Financial Instruments

As set out in IFRS 9, all derivative financial instruments are recognized at fair value on the balance sheet. Derivative financial instruments are recognized as of the transaction date. When a contract involving a derivative is entered into, it is initially determined whether it serves to hedge a balance sheet item (fair value hedge) or to hedge future cash flows (cash flow hedge). Some derivatives do not meet the requirements included in IFRS 9 for recognition as hedges, despite this being their economic purpose (stand-alone hedge).

Changes in the fair values of derivatives are recognized as follows:

1. Fair value hedge: Changes in the fair value of these derivatives used to hedge assets or liabilities are recognized in profit or loss; the corresponding gain or loss on the change in fair value of the underlying balance sheet item is also directly included in the income statement.
2. Cash flow hedge: The effective portion of the changes in the fair value of derivatives used to hedge future cash flows is recognized in other comprehensive income. The amounts carried here are included in the initial measurement when an underlying non-financial asset or a non-financial liability is received (basis adjustment). In other cases, the reclassification of the previously recognized gains and losses from equity to the income statement is performed when the hedged underlying transaction affects profit or loss. The ineffective portion of the changes in the fair value of the hedging instrument are recognized in profit or loss.
3. Stand-alone hedge: Changes in the fair value of derivatives that do not meet the criteria for recognition as hedges are recognized in profit or loss.

In the financial year 2018, no hedge transactions were recognized with fair value hedges. Likewise, no hedge of net investment in foreign operations was made.

Share-Based Payments

Share-based payments for employees of the Bertelsmann Group include equity-settled share-based payment transactions and cash-settled share-based payment transactions. Equity-settled share-based payment transactions are granted to certain directors and senior employees in the form of share options. The options are granted at the market price on the grant date and are exercisable at that price. For share options, the fair value of the options granted is recognized as personnel costs with a corresponding increase in equity. The fair value is measured at the grant date and allocated over the vesting period during which the employees become unconditionally entitled to the options. The fair value of the options granted is measured using a binomial option pricing model, taking into account the terms and conditions at which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options vesting. Share options forfeited solely due to share prices not achieving the vesting threshold are excluded. The financial liability arising under cash-settled share-based payment transactions is measured initially at fair value at grant date using an option pricing model. Until the liability is settled, its fair value shall be remeasured at the end of each reporting period and at the date of settlement, with any value changes recognized in profit or loss as personnel costs of the period.

Non-Current Assets Held for Sale and Related Liabilities

Non-current assets or disposal groups are classified as held for sale if the associated carrying amount will be recovered principally through a sale transaction and not from continued use. These non-current assets and the associated liabilities are presented in separate line items in the balance sheet in accordance with IFRS 5. They are measured at the lower of the carrying amount or fair value less costs to sell. Depreciation/amortization is not recognized if a non-current asset is classified as held for sale or forms part of a disposal group that is classified as held for sale. Components of entities that fulfill the requirements of IFRS 5.32 are classified as discontinued operations and thus are carried separately in the income statement and cash flow statement. All the changes in amounts made during the reporting period that are directly connected with the sale of a discontinued operation in any preceding period are also stated in this separate category. If a component of an entity is no longer classified as held for sale, the results of this entity component that were previously carried under discontinued operations are reclassified to continuing operations for all the reporting periods shown.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of Consolidated Financial Statements requires the use of accounting judgments, estimates and assumptions that may impact the carrying amounts of assets, liabilities, income and expenses recognized. Amounts actually realized may differ from estimated amounts. The following section presents accounting judgments, estimates and assumptions that are material in the Bertelsmann Consolidated Financial Statements for understanding the uncertainties associated with financial reporting.

- Recognition of income and expense: In the event of return rights, mostly for print products, estimates must be made with regard to the anticipated return volume as revenues are recognized, taking the anticipated returns into account. Return ratios determined using statistical methods are used to identify the anticipated returns. The transaction prices to be determined using the contract-based five-step model defined in IFRS 15 often include both fixed and variable consideration. The variable components are determined on the basis of estimates, which are made and updated in accordance with constraint conditions. For various business models, qualitative estimates must be made as part of principal-agent considerations as to who is to be regarded as a customer of a Bertelsmann company and whether a Bertelsmann company is to be regarded as principal or agent in a transaction.
- Control of entities in which the Bertelsmann Group holds less than half of the voting rights: Management considers that the Bertelsmann Group has de facto control of

Groupe M6, which belongs to RTL Group, even though it holds less than 50 percent of the voting rights. RTL Group is the major shareholder of Groupe M6, while the balance of other holdings remains highly dispersed, and the other shareholders have not organized their interest in such a way that they intend to vote differently from the Bertelsmann Group. In addition, the Bertelsmann Group has a majority in relevant governing bodies and the decision-making rights over the relevant activities of Groupe M6 resulting from this majority.

- Significant influence although the Bertelsmann Group holds less than 20 percent of the equity shares in another entity: Although the Bertelsmann Group holds less than 20 percent of the equity shares of Atresmedia, management considers that the Group exercises a significant influence on Atresmedia in view of the representation of RTL Group on the Board of Directors and other governing bodies of Atresmedia.
- Investments in equity instruments: The measurement of various investments in equity instruments recognized at fair value that are not based on prices quoted on active markets is based on observable prices obtained as part of the most recently implemented qualified financing rounds, taking into account the life and developmental cycle of the respective entity, or on valuations obtained on the basis of established financial methods using risk-adjusted discount rates. Further adjustments are made for financial instruments with contractual lock-ups.
- Trade and other receivables: Calculation of loss allowance for accounts receivables is based on historical credit loss rates for groups of financial assets with similar credit risk characteristics and on forward-looking information, including customer-specific information and forecasts of future economic conditions.
- Advance payments: Sales estimates and assumptions on future sales success are also made in connection with advances paid to authors to secure exploitation rights for their publications.
- Impairment losses: Management estimates of cash flow, on which impairment tests are based, are based on factors including assumptions of economic trends and the associated risks, the regulatory environment, the competitive environment, market share, investments, EBITDA margins and growth rates. A combination of long-term trends, industry forecasts and in-house knowledge, with special emphasis on recent experience, is used in forming the assumptions about the development of the various relevant markets in which the Bertelsmann Group operates. The relevant markets are an area highly exposed to the general economic conditions. The state of the relevant markets is just one of the key operational drivers the Bertelsmann Group uses when assessing individual business models. The most important assumptions include estimated growth rates, the weighted average cost of capital and tax rates. All these different elements are variable, interrelated and difficult to isolate as the main driver of the various business models and respective valuations. Changes to these estimates as a result of more recent information could have a material impact on the amount of the possible impairment. The growth rates applied are based on long-term real growth rates for the relevant economies, growth expectations for the relevant sectors and long-term inflation forecasts for the countries in which the cash-generating units operate. The values allocated to the key assumptions are in line with external sources of information. The figures obtained using the respective discount rates reflect the recoverable amount of the cash-generating units. Material changes in market or competitive environment may impair the value of cash-generating units. Details on impairment testing for intangible assets (including goodwill) in the Bertelsmann Group are presented in note 9 "Intangible Assets." In addition, in the case of sports and film rights, estimates are made with regard to anticipated revenues.
- Pension obligations: Pension obligations are measured using the projected unit credit method. Using this approach, biometric calculations, the prevailing long-term capital market interest rates and, in particular, assumptions about future salary and pension increases are taken into account. As a result of the increase in the discount rate for measuring provisions for pensions, actuarial gains amounting to €64 million before related tax effects were recognized in the item "Remeasurement component of defined benefit plans." Details on the assumptions made in pension accounting are presented in note 18 "Provisions for Pensions and Similar Obligations."
- Provisions for onerous contracts and warranties are also based to a significant extent on management estimates with regard to their amount and probability of occurrence. Assessments of whether there is a present obligation, whether an outflow of resources is probable and whether it is possible to reliably determine the amount of the obligation are generally based on the expertise of in-house or third-party specialists. More recent information could change the estimates and thus impact the Group's financial position and financial performance. The legal and regulatory environment in which Bertelsmann operates does not bear significant litigation risks. With regard to risk provisioning, a provision for potential losses from litigation is recognized when the risks of a loss are considered probable and when a reliable estimate of the anticipated financial impact is possible. For significant contingent liabilities for which the possibility of a future loss is more than remote but less than probable, the Bertelsmann Group estimates the possible loss where the Group believes an estimate can be made. Contingent liabilities from litigation that were of subordinate significance from a Group perspective existed at the end of the reporting period. Management regularly reviews the recognition, measurement and use of provisions along with the disclosure requirements for contingent liabilities.

In the case of purchase price allocations, assumptions are also made regarding the measurement of assets and liabilities assumed as part of business combinations. This applies in particular with regard to the acquired intangible assets, as measurements are based on fair value. As a rule, this is the present value of the future cash flows after taking into account the present value of the tax amortization benefit. In addition, the definition of uniform useful lives within the Group is based on management's assumptions. General information on useful lives is presented in the sections "Other Intangible Assets" and "Property, Plant and Equipment."

Assessments of the ability to realize uncertain tax positions and future tax benefits are also based on assumptions and estimates. Recognition of an asset or liability from an uncertain tax position is performed in accordance with IAS 12 if payment or refund of an uncertain tax position is probable. Measurement of the uncertain tax position is at its most likely amount. Deferred tax assets are only carried to the extent that it is probable that they can be utilized against future taxable profits. When assessing the probability of the ability to use deferred tax assets in the future, various factors are taken into account, including past earnings, company forecasts, tax forecast strategies and loss carryforward periods. Information relating to the ability to realize tax benefits is presented in note 8 "Income Taxes."

Assumptions are also made for fair value measurement of financial assets and financial liabilities. In this regard, Bertelsmann uses various financial methods that take into account the market conditions and risks in effect at the end of the respective reporting periods. The inputs to these models are taken from observable markets where possible, but where these are not available, fair value measurement is based on assumptions by management. These assumptions relate to input factors such as cash flows, discount rate, liquidity risk and default risks.

Estimates and assumptions also relate to the share-based payments. The conditions of the cash-settled share-based payment transactions and the stock option plans are presented in greater detail in the section "Share-Based Payments" in note 17 "Equity."

Estimates and the underlying assumptions are reviewed on an ongoing basis. As a rule, adjustments to estimates are taken into account in the period in which the change is made and in future periods.

1 Revenues

In the financial year 2018, group revenues were primarily generated from contracts with customers in accordance with IFRS 15. Other revenues not in the scope of IFRS 15 resulted from financial services in the Arvato division. The following table shows the revenues from contracts with customers in accordance with IFRS 15 by division and broken down by the revenue sources and geographical areas. The categorization of revenue sources shown corresponds to that used in segment reporting.

Revenue from Contracts with Customers

in € millions	RTL Group	Penguin Random House	Gruner + Jahr	BMG	Arvato	Bertelsmann Printing Group	Bertelsmann Education Group	Total divisions[1]
Revenue Sources								
Own products and merchandise	144	3,280	618	48	222	34	–	4,346
Services	379	90	406	–	3,593	1,400	257	6,125
Advertising	3,647	–	380	–	–	34	–	4,061
Rights and licenses	2,324	54	16	494	–	–	–	2,888
	6,494	3,424	1,420	542	3,815	1,468	257	17,420
Geographical Areas								
Germany	2,159	257	928	34	1,448	888	1	5,715
France	1,459	14	315	21	459	68	–	2,336
United Kingdom	244	366	10	134	212	185	–	1,151
Other European countries	1,472	287	129	66	1,096	190	–	3,240
United States	972	1,966	20	239	326	123	250	3,896
Other countries	188	534	18	48	274	14	6	1,082
	6,494	3,424	1,420	542	3,815	1,468	257	17,420

As prior year comparatives have not been adjusted in accordance with the transitional provisions of IFRS 15, they are not included in this table.
1) Excluding Bertelsmann Investments and Corporate activities.

The revenues reported by source of revenue and geographical areas reflect exclusively the revenues in accordance with IFRS 15 and consequently differ in amount from the breakdown of revenues in segment reporting. The revenues from contracts with customers comprise in the reporting period performance obligations fulfilled at a certain point in time of €6,920 million and performance obligations fulfilled over a certain period of time of €10,500 million. They are attributable to the following divisions:

Timing of Revenue Recognition from Contracts with Customers

in € millions	Point in time	Over time	Total divisions[1]
RTL Group	2,169	4,325	6,494
Penguin Random House	3,327	97	3,424
Gruner + Jahr	928	492	1,420
BMG	140	402	542
Arvato	295	3,520	3,815
Bertelsmann Printing Group	61	1,407	1,468
Bertelsmann Education Group	–	257	257
	6,920	10,500	17,420

As prior year comparatives have not been adjusted in accordance with the transitional provisions of IFRS 15, they are not included in this table.
1) Excluding Bertelsmann Investments and Corporate activities.

If revenue is recognized at a point in time, the timing of revenue recognition is determined by the contractually agreed terms of sale. For performance obligations satisfied over time, a sufficient measure of progress is determined generally based on output methods to recognize revenue accordingly. Input methods are used to determine revenue recognition in business models for which they more accurately measure progress. Revenues amounting to €12 million result from performance obligations already satisfied in previous periods. Bertelsmann makes use of practical expedients set out in IFRS 15 and does not disclose any unsatisfied performance obligations for contracts with an original duration of no more than 12 months and for contracts for which revenue can be recognized according to the amount invoiced for simplification purposes. As of December 31, 2018, Bertelsmann expects future revenues from existing long-term service level agreements of €718 million, which will be attributable to unsatisfied (or partially unsatisfied) performance obligations as of the balance sheet date and is expected to be recognized in the amount of €307 million in the next financial year and in the amount of €411 million in the following years.

In the financial year 2017, revenues were recognized in accordance with IAS 18. They were measured at the fair value of the consideration received or receivable, and reduced by anticipated reductions in price, trade discounts and similar other deductions. The Bertelsmann Group recognized revenues amounting to €17,190 million in the previous period. Of this amount €4,335 million was attributable to revenues from selling goods and merchandise, €6,073 million to revenues from providing services, €4,406 million from revenues from advertising and €2,376 million from revenues from grant of use of assets. The item "Revenues from advertising" included, among others, revenues from barter transactions in the amount of €56 million, which were primarily incurred by RTL Group and Gruner + Jahr.

2 Other Operating Income

in € millions	2018	2017
Fair value measurement of investments	157	15
Gains from disposals of non-current assets	76	125
Income from reimbursements	60	179
Income from sideline operations	45	92
Foreign exchange gains	3	–
Sundry operating income	132	157
	473	568

The item "Fair value measurement of investments" mainly relates to financial instruments held in the portfolio of the Bertelsmann Investments division. Bertelsmann Investments assigns its minority stakes in start-ups and fund investments to the fair value through profit or loss category in accordance with IFRS 9. Further details are presented in note 12 "Minority Stakes and Other Financial Assets." The item "Gains from disposals of non-current assets" primarily includes a capital gain of €35 million from the sale of intangible assets by Groupe M6, which belongs to RTL Group. In the previous year, this item primarily included a capital gain of €94 million from the sale of three adjoining buildings in Paris by RTL Group.

3 Personnel Costs

in € millions	2018	2017
Wages and salaries	4,464	4,368
Statutory social security contributions	719	714
Expenses for pensions and similar obligations	141	138
Profit sharing	116	105
Other employee benefits	218	216
	5,658	5,541

The contributions paid by employer to state pension plans amounted to €371 million (previous year: €369 million) in the financial year 2018.

4 Amortization/Depreciation, Impairment and Reversals on Intangible Assets and Property, Plant and Equipment

in € millions	2018	2017
Amortization/depreciation, impairment and reversals on		
– intangible assets	570	423
– property, plant and equipment	277	268
	847	691

Further details on amortization/depreciation, impairment and reversals are presented in note 9 "Intangible Assets" and note 10 "Property, Plant and Equipment."

5 Other Operating Expenses

in € millions	2018	2017
Administrative expenses	1,336	1,318
Selling and transmission expenses	610	479
Advertising costs	393	427
Loss allowances on receivables, loans and non-financial assets	192	192
Consulting and audit fees	183	177
Operating taxes	116	85
Adjustment to carrying amounts on assets held for sale	6	4
Losses on disposals of non-current assets	16	6
Foreign exchange losses	–	16
Sundry operating expenses	102	77
	2,954	2,781

The item "Administrative expenses" includes, among others, payments recognized as expenses from operating leases of €275 million (previous year: €270 million), associated services and incidental costs of €37 million (previous year: €29 million) and contingent lease payments of €8 million (previous year: €7 million). In addition, this item includes repair and maintenance costs of €197 million (previous year: €195 million) and costs for IT services of €168 million (previous year: €156 million).

6 Interest Income and Interest Expenses

in € millions	2018	2017
Interest income		
Interest income on cash and cash equivalents	4	3
Interest income on interest rate derivatives	–	1
Other interest income	11	10
	15	14
Interest expenses		
Interest expenses on financial debt	(104)	(97)
Interest expenses on interest rate derivatives	(1)	(10)
Other interest expenses	(10)	(27)
	(115)	(134)

7 Other Financial Income and Expenses

in € millions	2018	2017
Other financial income		
Minority interests in partnerships	4	2
Non-operating foreign exchange gains	2	11
Other non-operating income from derivatives	22	n/a
Sundry financial income	21	13
	49	26
Other financial expenses		
Net interest on defined benefit plans	(30)	(34)
Dividend entitlement on profit participation certificates	(44)	(44)
Minority interests in partnerships	(10)	(11)
Financial expenses from put options	–	(11)
Other non-operating expenses from derivatives	(56)	n/a
Sundry financial expenses	(25)	(25)
	(165)	(125)

To better reflect the economic content, income and expenses from non-operating foreign currency hedging transactions are offset against the results from the measurement of the economically hedged items in foreign currency, and are recognized as non-operating foreign exchange gains or losses. In the financial year 2018, losses from these non-operating hedged items in foreign currency of €-77 million (previous year: €-194 million) were offset by income from foreign currency hedging transactions amounting to €91 million (previous year: €256 million). Gains from these hedged items in foreign currency of €112 million (previous year: €63 million) were offset by expenses from foreign currency hedging transactions amounting to €-124 million (previous year: €-114 million).

8 Income Taxes

Income taxes, broken down into current and deferred income taxes, are as follows:

Income Taxes

in € millions	2018	2017
Earnings before income taxes (total)	1,405	1,670
Current income taxes from continuing operations	(394)	(462)
Deferred income taxes from continuing operations	93	(10)
Income taxes from continuing operations	(301)	(472)
Current income taxes from discontinued operations	–	–
Deferred income taxes from discontinued operations	–	–
Income taxes from discontinued operations	–	–
Total income taxes	(301)	(472)
Net income after income taxes (total)	1,104	1,198

Tax loss carryforwards of €397 million (previous year: €389 million) were utilized in the financial year 2018, reducing current tax expenses by €92 million (previous year: €106 million). Of the tax loss carryforwards utilized, €31 million (previous year: €31 million) was due to German corporate income tax, €22 million (previous year: €29 million) was due to German trade tax, and €344 million (previous year: €329 million) was due to foreign income taxes. These amounts include €58 million (previous year: €78 million) for tax loss carryforwards for which no deferred tax assets were recognized in the past. These relate in an immaterial amount to German corporate tax (previous year: €2 million), in an immaterial amount to German trade tax (previous year: €2 million) and to foreign income taxes in the amount of €58 million (previous year: €74 million). This led to a decrease in current tax expense of €12 million (previous year: €20 million).

Deferred tax assets and liabilities resulted from the following items and factors:

Deferred Taxes

	12/31/2018			12/31/2017		
in € millions	Assets	Equity and liabilities	thereof recognized in profit or loss in the financial year	Assets	Equity and liabilities	thereof recognized in profit or loss in the financial year
Intangible assets	291	494	7	283	436	118
Property, plant and equipment	46	33	3	46	39	(14)
Financial assets	18	54	(26)	15	27	1
Inventories	76	7	18	55	6	(16)
Receivables	138	27	12	119	22	15
Advance payments and other assets	173	131	(2)	168	161	17
Provisions	840	291	(31)	779	206	(11)
Financial debt	15	66	(9)	13	55	(19)
Liabilities	9	7	(8)	16	6	(14)
Advance payments and other liabilities	85	26	27	55	26	7
Loss carryforwards/tax credits	369		102	239		(94)
Total	2,060	1,136	93	1,788	984	(10)
Offset	(1,009)	(1,009)		(860)	(860)	
Carrying amount	1,051	127		928	124	

No deferred tax liabilities were recognized for temporary differences in connection with investments in subsidiaries in the amount of €504 million (previous year: €443 million) as Bertelsmann can control their reversal, and it is probable that these temporary differences will not be reversed in the foreseeable future. Current and deferred tax assets and liabilities are offset against each other if they relate to the same tax authority and meet the criteria for offsetting. The term of the deferred taxes on temporary differences is mostly long-term.

Information on amounts of income tax relating to other comprehensive income is presented in note 17 "Equity."

Valuation allowances for deferred tax assets are recognized on temporary differences, tax loss carryforwards and tax credits when it is unlikely that they can be utilized in the foreseeable future. The need to recognize valuation allowances is assessed primarily based on existing deferred tax liabilities from temporary differences and projected taxable income within a planning period.

Temporary differences, tax loss carryforwards and tax credits for which no deferred taxes have been recognized can be carried forward as follows:

Expiration

in € millions	12/31/2018	12/31/2017
Tax loss carryforwards		
To be carried forward for more than 5 years	5,845	6,381
To be carried forward for up to 5 years	132	128
Temporary differences	116	154
Tax credits		
To be carried forward for more than 5 years	2	52
To be carried forward for up to 5 years	1	–

A reconciliation of expected tax result to actual tax result is shown in the following table:

Reconciliation to Actual Tax Expense

in € millions	2018	2017
Earnings before income taxes from continuing operations	1,404	1,677
Income tax rate applicable to Bertelsmann SE & Co. KGaA	31.00%	30.80%
Expected tax expense from continuing operations	(435)	(517)
The tax effects of the following items led to differences between the expected and actual tax expense:		
Adjustment to different national tax rates	21	(6)
Effect of changes in tax rate and tax law	(7)	(17)
Non-tax-deductible impairment on goodwill	(46)	(10)
Tax effects in respect of results from disposals of investments	1	37
Current income taxes for previous years	7	10
Deferred income taxes for previous years	33	(10)
Effects of measurements of deferred tax assets	123	23
Permanent differences	10	25
Other adjustments	(8)	(7)
Total of adjustments	134	45
Actual tax expense from continuing operations	(301)	(472)

The income tax rate applicable to Bertelsmann SE & Co. KGaA consists of corporate income tax, the solidarity surcharge and trade tax. The effective income tax rate rose slightly compared to the previous year due to the increase in the average trade tax rate. The effects from the valuation of deferred tax assets are attributable to the planned use of previously unrecognized loss carryforwards and tax credits.

Effective Income Tax Rate

	2018	2017
Corporate income tax including solidarity surcharge	15.83%	15.83%
Trade tax	15.17%	14.97%
Effective income tax rate	31.00%	30.80%

9 Intangible Assets

in € millions	Goodwill	Other intangible assets					Total
		Music and film rights	Other rights and licenses	Internally generated intangible assets	Advance payments	Total	
Cost							
Balance as of 1/1/2017	8,465	2,831	2,085	1,002	13	5,931	14,396
Exchange differences	(229)	(144)	(102)	(53)	–	(299)	(528)
Acquisitions through business combinations	167	104	46	1	–	151	318
Other additions	–	165	139	32	23	359	359
Reductions through disposal of investments	(2)	–	(1)	–	–	(1)	(3)
Other disposals	–	(82)	(55)	(19)	–	(156)	(156)
Reclassifications in accordance with IFRS 5	–	–	(3)	–	–	(3)	(3)
Reclassifications and other changes	2	28	(44)	19	(22)	(19)	(17)
Balance as of 12/31/2017	8,403	2,902	2,065	982	14	5,963	14,366
Exchange differences	57	37	26	15	–	78	135
Acquisitions through business combinations	483	19	201	11	–	231	714
Other additions	–	98	131	45	23	297	297
Reductions through disposal of investments	(26)	–	(93)	(2)	–	(95)	(121)
Other disposals	–	(13)	(75)	(10)	–	(98)	(98)
Reclassifications in accordance with IFRS 5	(13)	(14)	(2)	–	–	(16)	(29)
Reclassifications and other changes	(3)	34	43	14	(23)	68	65
Balance as of 12/31/2018	8,901	3,063	2,296	1,055	14	6,428	15,329
Accumulated amortization							
Balance as of 1/1/2017	291	1,392	1,066	925	4	3,387	3,678
Exchange differences	(2)	(38)	(40)	(52)	–	(130)	(132)
Amortization	–	175	170	44	–	389	389
Impairment losses	30	1	3	1	–	5	35
Reversals of impairment losses	–	–	(1)	–	–	(1)	(1)
Reductions through disposal of investments	–	–	(1)	–	–	(1)	(1)
Other disposals	–	(82)	(45)	(16)	–	(143)	(143)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	–	(2)	(2)
Reclassifications and other changes	–	4	(25)	6	(4)	(19)	(19)
Balance as of 12/31/2017	319	1,452	1,125	908	–	3,485	3,804
Exchange differences	3	12	10	16	–	38	41
Amortization	–	179	170	44	–	393	393
Impairment losses	173	1	3	3	–	7	180
Reversals of impairment losses	–	(1)	(1)	(1)	–	(3)	(3)
Reductions through disposal of investments	–	–	(41)	(1)	–	(42)	(42)
Other disposals	–	(14)	(58)	(8)	–	(80)	(80)
Reclassifications in accordance with IFRS 5	–	(8)	(2)	–	–	(10)	(10)
Reclassifications and other changes	(4)	3	46	–	–	49	45
Balance as of 12/31/2018	491	1,624	1,252	961	–	3,837	4,328
Carrying amount as of 12/31/2018	8,410	1,439	1,044	94	14	2,591	11,001
Carrying amount as of 12/31/2017	8,084	1,450	940	74	14	2,478	10,562

Other rights and licenses include brands and publishing rights, acquired customer relationships along with acquired software and other licenses. Internally generated intangible assets mostly include own film and TV productions and internally generated software. As in the previous year, no intangible assets have been provided as collateral for liabilities.

Goodwill and other intangible assets are attributable to the following cash-generating units:

Goodwill and Other Intangible Assets with Indefinite Useful Life by Cash-Generating Units

	Goodwill		Other intangible assets with indefinite useful life	
in € millions	12/31/2018	12/31/2017	12/31/2018	12/31/2017
RTL Group	5,043	5,158	127	121
RTL Group, Group level	2,123	2,123	–	–
Fremantle	1,050	1,047	–	–
Television Germany	936	955	–	–
Groupe M6	510	525	127	120
RTL Nederland	159	160	–	–
SpotX	123	112	–	–
StyleHaul	–	104	–	–
Other	142	132	–	1
Penguin Random House	952	925	–	–
Penguin Random House Venture	904	881	–	–
Random House Germany	48	44	–	–
Gruner + Jahr	479	524	–	–
Magazines and digital business Germany & MPS	334	334	–	–
Magazines and digital business International	129	174	–	–
Newspapers	16	16	–	–
BMG	361	355	–	–
Arvato	535	529	–	–
Financial Solutions	419	412	–	–
Other	116	117	–	–
Bertelsmann Printing Group	40	39	–	–
Print US	23	22	–	–
Other	17	17	–	–
Bertelsmann Education Group	990	554	–	–
Online Learning	861	548	–	–
Education Services	51	n/a	–	n/a
Other	78	6	–	–
Bertelsmann Investments	9	n/a	–	n/a
	8,410	8,084	127	121

Intangible assets with indefinite useful life are primarily Groupe M6 trademark rights in France (€120 million; previous year: €120 million). In determining that the M6 brand has an indefinite useful life, management has considered various factors such as the past and expected longevity of the brand, the impact of possible changes in broadcasting technologies, the impact of possible evolutions of the regulatory environment in the French television industry, the current and expected audience share of the M6 channel, and management's strategy to maintain and strengthen the trademark "M6." As of December 31, 2018, based on the analysis of these factors, there is no foreseeable limit to the period of time over which the M6 brand is expected to generate cash inflows.

For the purpose of impairment testing in accordance with IAS 36, goodwill from a business combination is allocated to the cash-generating units that are expected to benefit from the synergies of the business combination. The increase in goodwill in the Online Learning and Other cash-generating units of the Bertelsmann Education Group is attributable to the acquisition of OnCourse Learning.

The recoverable amount of the impairment test for RTL Group's goodwill recognized at Group level was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2018, the market price of RTL Group S.A. shares on the Frankfurt Stock Exchange was €46.70 (December 31, 2017: €67.07). No impairment was identified for goodwill carried. In addition, the value in use was calculated using a discounted cash flow method (level 3) based on a WACC of 5.8 percent and a long-term growth rate of 1.0 percent. The value in use determined exceeded the fair value determined from the stock market price. The recoverable amount for the goodwill impairment test of the cash-generating unit Groupe M6 was determined on the basis of the market price, which is based on level 1 of the fair value hierarchy. As of December 31, 2018, the market price of Métropole Télévision shares on the Paris Stock Exchange was €14.04 (December 31, 2017: €21.54).

For the other cash-generating units, the recoverable amount equals the fair value, which is derived from discounted cash flows less costs of disposal, and which is based on level 3 of the fair value hierarchy. Projected cash flows were based on internal estimates for three detailed planning periods and, as a rule, two further detailed planning periods were applied. For periods after this detailed horizon, a perpetual annuity was applied, taking into account individual business-specific growth rates.

The cash flow forecasts underlying the impairment testing of the individual cash-generating units bearing material goodwill are based on the following assumptions relating to the market development for the beginning of the detailed planning period:

- For 2019, the European TV advertising markets are expected to remain stable or to grow slightly.
- In the book markets, an overall stable development is expected.
- In the magazine business, the strong decline in the print advertising and the significant decline in circulation markets in Germany and France will persist in 2019, while continued strong growth is expected in the digital segment in Germany.
- For 2019, continuing moderate growth of the global music market is expected in the publishing rights market segment. At the same time, significant growth is anticipated in the recording rights market segment.
- In 2019, the services markets are demonstrating growth similar to the previous year, as expected.
- The gravure printing market in 2019 is likely to show an ongoing significant decline. Continued moderate decline is expected for the offset market in Europe, while the book printing market in North America is expected to continue its stable development.
- Overall, sustained strong growth is anticipated for the relevant US education markets.

In addition, fair values based on discounted cash flows were measured using the following individual business-specific growth rates and discount rates for periods after the detailed planning period:

Overview of Growth and Discount Rates

	Growth rate in % for the year		Discount rate in % for the year	
	12/31/2018	12/31/2017	12/31/2018	12/31/2017
RTL Group				
Fremantle	1.8	1.8	7.1	7.1
Television Germany	1.0	1.5	5.8	6.8
RTL Nederland	1.0	1.5	5.8	6.8
SpotX	2.0	2.0	10.1	9.8
StyleHaul	–	2.0	27.5	11.1
Other	0.0–2.0	0.0–2.0	6.4–11.8	7.2–10.8
Penguin Random House				
Penguin Random House Venture	0.5	0.5	9.6	8.7
Random House Germany	0.5	0.5	7.2	6.9
Gruner + Jahr				
Magazines and digital business Germany & MPS	0.0	0.0	5.5	6.1
Magazines and digital business International	0.0	0.0	5.8	6.5
Newspapers	0.0	0.0	6.3	7.1
BMG	2.0	2.0	6.0	6.9
Arvato				
Financial Solutions	1.0	1.0	6.3	6.8
Other	1.0	1.0	6.4–8.2	6.0–8.2
Bertelsmann Printing Group				
Print US	0.0	0.0	8.8	9.4
Other	0.0	0.0	5.5–6.8	6.0–7.9
Bertelsmann Education Group				
Online Learning	2.5	2.5	10.6	9.1
Education Services	1.0	n/a	11.4	n/a
Other	2.0	2.0	10.6–11.7	13.8
Bertelsmann Investments	5.0	n/a	18.0	n/a

In the financial year 2018, impairment losses on goodwill amounted to €173 million (December 31, 2017: €30 million). Impairment losses on goodwill and other intangible assets with indefinite useful lives are recognized in the income statement under “Amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment.”

In light of recurring business underperformance, which led to a change in local management during the course of 2018, RTL Group management launched, in the third quarter of 2018, a complete review of the business model of StyleHaul. As part of this review it has been decided to newly focus the business model. This will require a change in the revenue mix with higher brand marketing, which has a better margin profile, while reducing the collaboration with certain talents. At the same time, StyleHaul's management has engaged in a complete review of the cost base of the business in order to reshape the organization and increase operating efficiency. As a result, the revenue forecast for 2019 has been revised strongly downward (i.e., more than 50 percent compared to actuals 2018). StyleHaul is expected to reach break-even on a stand-alone basis in 2023. As of December 31, 2018, the fair value less costs of disposal of this cash-generating unit was derived using several valuation techniques simultaneously capturing both a discounted cash flow model and market transaction multiples (an enterprise value-to-sales multiple of 2.0x) to determine the terminal value. A discount rate of 27.5 percent (December 31, 2017: 11.1 percent) was applied, the increase in which is mainly attributable to a modification of the valuation technique and the delayed break-even. As of December 31, 2018, a full goodwill impairment of €103 million was recognized (December 31, 2017: €0 million).

Of the total impairment losses on goodwill, €45 million (December 31, 2017: €30 million) relates to the cash-generating unit Gruner + Jahr Magazines and digital business International. Due to increasing competitive pressure among the digital marketers, the recoverable amount of €157 million was lower than the carrying amount. Impairment losses were measured on the basis of the following assumptions: a discount rate of 5.8 percent (December 31, 2017: 6.5 percent) and a long-term growth rate of 0.0 percent (December 31, 2017: 0.0 percent).

A further €25 million relates to the cash-generating unit Education Services. Due to lower margin assumptions as a result of a strategic realignment of the business model, the recoverable amount of €194 million was lower than the carrying amount. Impairment losses were measured on the basis of the following assumptions: a discount rate of 11.4 percent and a long-term growth rate of 1.0 percent.

Other material goodwill was not subject to impairment, even given a change by one of the two most important factors: discount rate (increase of 1.0 percentage point) and long-term growth rate (decrease of 1.0 percentage point).

10 Property, Plant and Equipment

in € millions	Land, rights equivalent to land and buildings	Technical equipment and machinery	Other equipment, fixtures, furniture and office equipment	Advance payments and construction in progress	Total
Cost					
Balance as of 1/1/2017	1,826	2,453	1,368	67	5,714
Exchange differences	(19)	(46)	(43)	(2)	(110)
Acquisitions through business combinations	–	3	3	–	6
Other additions	52	70	136	68	326
Reductions through disposal of investments	–	–	–	–	–
Other disposals	(51)	(69)	(106)	(1)	(227)
Reclassifications in accordance with IFRS 5	81	1	(2)	–	80
Reclassifications and other changes	21	41	16	(77)	1
Balance as of 12/31/2017	1,910	2,453	1,372	55	5,790
Exchange differences	2	9	3	1	15
Acquisitions through business combinations	–	–	3	–	3
Other additions	36	55	118	114	323
Reductions through disposal of investments	(14)	(12)	(18)	(1)	(45)
Other disposals	(43)	(92)	(150)	(1)	(286)
Reclassifications in accordance with IFRS 5	–	–	(2)	–	(2)
Reclassifications and other changes	32	44	22	(88)	10
Balance as of 12/31/2018	1,923	2,457	1,348	80	5,808
Accumulated depreciation					
Balance as of 1/1/2017	1,013	2,153	984	–	4,150
Exchange differences	(12)	(40)	(32)	–	(84)
Depreciation	55	81	129	–	265
Impairment losses	–	1	3	–	4
Reversals of impairment losses	–	–	(1)	–	(1)
Reductions through disposal of investments	–	–	–	–	–
Other disposals	(32)	(67)	(103)	–	(202)
Reclassifications in accordance with IFRS 5	–	(1)	(1)	–	(2)
Reclassifications and other changes	4	(3)	1	–	2
Balance as of 12/31/2017	1,028	2,124	980	–	4,132
Exchange differences	2	8	3	–	13
Depreciation	56	80	135	–	271
Impairment losses	–	3	3	–	6
Reversals of impairment losses	–	–	–	–	–
Reductions through disposal of investments	(7)	(8)	(11)	–	(26)
Other disposals	(31)	(91)	(144)	–	(266)
Reclassifications in accordance with IFRS 5	–	–	(1)	–	(1)
Reclassifications and other changes	2	9	(2)	–	9
Balance as of 12/31/2018	1,050	2,125	963	–	4,138
Carrying amount as of 12/31/2018	873	332	385	80	1,670
Carrying amount as of 12/31/2017	882	329	392	55	1,658

As of the end of the reporting period, property, plant and equipment in the amount of €14 million (previous year: €13 million) were pledged as collateral for liabilities.

Impairment losses totaling €-6 million were recognized for property, plant and equipment (previous year: €-4 million).

11 Interests in Other Entities
Subsidiaries with Material Non-Controlling Interests

In the Group's view, material non-controlling interests relate to RTL Group and the publishing group Penguin Random House. The proportion of ownership interests held by non-controlling interests in RTL Group, based in Luxembourg, Luxembourg, is 24.3 percent after treasury shares (previous year: 24.3 percent). At RTL Group itself, material non-controlling interests relate to the subsidiary Groupe M6, based in Paris, France. The Bertelsmann Group has a 48.3 percent interest (previous year: 48.3 percent) in Groupe M6. Of the non-controlling interests of RTL Group, €470 million (previous year: €437 million) is attributable to Groupe M6. The publishing group Penguin Random House, formed due to the merger of Random House and Penguin as of July 1, 2013, consists of the two legal groups Penguin Random House LLC, based in Wilmington, Delaware, United States, which bundles all the publishing units in the United States, and Penguin Random House Limited, based in London, United Kingdom, comprising all other publishing units. To better reflect the substance of the Bertelsmann Group's investment in the two groups, both groups are considered as a single entity. On October 5, 2017, Bertelsmann acquired in addition to its existing 53 percent another 22 percent of the shares in Penguin Random House from Pearson, the British media and education company. The remaining shares in the company remained with Pearson. As of December 31, 2018, proportion of ownership interests held by non-controlling interests in Penguin Random House is 25.0 percent (previous year: 25.0 percent).

The following table shows summarized financial information on RTL Group and Penguin Random House, including the interests in their subsidiaries, joint ventures and associates. The information disclosed shows the amounts before intercompany eliminations.

Financial Information for Subsidiaries with Material Non-Controlling Interests

	RTL Group		Penguin Random House	
in € millions	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Non-current assets	6,530	6,680	1,838	1,759
Current assets	3,907	3,330	2,080	1,853
Non-current liabilities	1,290	1,315	1,132	860
Current liabilities	3,482	3,155	1,700	1,704
Bertelsmann shareholders' equity	4,506	4,442	924	892
Non-controlling interests	1,159	1,098	162	156

in € millions	2018	2017	2018	2017
Revenues	6,505	6,373	3,134	3,075
Profit or loss	789	836	313	365
– thereof of non-controlling interests	279	277	78	143
Total comprehensive income	829	691	348	214
– thereof of non-controlling interests	290	240	84	94
Dividends to non-controlling interests	219	222	134	506
Cash flow from operating activities	861	1,019	352	322
Cash flow from investing activities	(78)	(134)	(26)	(89)
Cash flow from financing activities	(626)	(1,041)	(517)	(132)
Increase/(decrease) in cash and cash equivalents	157	(156)	(191)	101

Investments Accounted for Using the Equity Method

The investments accounted for using the equity method relate to joint ventures in the amount of €40 million (previous year: €46 million) and to associates in the amount of €618 million (previous year: €906 million).

Investments in Joint Ventures

As of December 31, 2018, investments in 25 (previous year: 28) individually immaterial joint ventures were accounted for in the Consolidated Financial Statements. The following table shows summarized financial information on these joint ventures. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Joint Ventures

in € millions	12/31/2018	12/31/2017
Non-current assets	51	61
Current assets	57	57
Non-current liabilities	9	8
Current liabilities	54	58

in € millions	2018	2017
Earnings after taxes from continuing operations	27	30
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	–
Total comprehensive income	27	30

Investments in Associates

As of December 31, 2018, investments in 48 (previous year: 63) associates were accounted for in the Consolidated Financial Statements. As in the previous year, the investment of RTL Group in Atresmedia, based in San Sebastián de los Reyes, Spain, is individually material for the Group. As of December 31, 2018, the ownership is 18.7 percent after taking into account treasury shares (previous year: 18.7 percent). On December 31, 2018, the stock market value of Atresmedia, which is listed on the Madrid Stock Exchange, amounted to €985 million (previous year: €1,964 million). As of December 31, 2018, the fair value of the Bertelsmann Group's interest in Atresmedia, which is assigned to level 1 fair value measurement, amounted to €184 million (previous year: €366 million). The management considers that the stock market value of Atresmedia at the end of the year does not reflect its earnings potential, which includes new digital and platform revenue streams and further content and channel exploitation opportunities. Therefore additionally a value in use was determined for Atresmedia as at December 31, 2018, on the basis of a discounted cash flow method. The value in use was determined on the basis of the following assumptions: a long-term growth rate of 1.0 percent and a discount rate of 8.4 percent. As of December 31, 2018, the value in use determined exceeded the fair value determined from the market price and the carrying amount. The interest in Atresmedia was not subject to impairment, even given a change by one of the two most important factors: discount rate (increase of 1.0 percentage point) and long-term growth rate (decrease of 1.0 percentage point).

The following table shows summarized financial information on Atresmedia. The information presented is the amounts included in the financial statements of Atresmedia plus adjustments for using the equity method, and not the Bertelsmann Group's share of these amounts.

Financial Information on Individually Material Associates

	Atresmedia	
in € millions	12/31/2018	12/31/2017
Non-current assets	609	631
Current assets	750	718
Non-current liabilities	345	226
Current liabilities	593	677
Equity	421	446

in € millions	2018	2017
Revenues	1,042	1,052
Earnings after taxes from continuing operations	88	142
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	–	(4)
Total comprehensive income	88	138
Dividends received from the associate	21	39

The reconciliation of the summarized financial information shown to the carrying amount of the interest in Atresmedia in the Consolidated Financial Statements is shown in the following table:

Reconciliation to Carrying Amount

in € millions	12/31/2018	12/31/2017
Equity	421	446
Proportionate equity	79	83
Goodwill	166	166
Carrying amount	245	249

The following table shows summarized financial information on associates that management considers individually immaterial. The information given represents in each case the Bertelsmann Group's interest.

Financial Information on Individually Immaterial Associates

in € millions	12/31/2018	12/31/2017
Non-current assets	414	687
Current assets	205	339
Non-current liabilities	48	67
Current liabilities	168	229

in € millions	2018	2017
Earnings after taxes from continuing operations	14	7
Earnings after taxes from discontinued operations	–	–
Other comprehensive income	(1)	(8)
Total comprehensive income	13	(1)

The total carrying amount of the investments in all individually immaterial associates amounts to €373 million (previous year: €657 million) as of December 31, 2018. Of this, €108 million was attributable to the investment in the online learning platform Udacity (previous year: €111 million). Although at 19.1 percent (previous year: 18.6 percent) the interest is less than 20 percent, the Bertelsmann Group exercises a significant influence on Udacity due to the representation within the Board of Directors. In the financial year 2018, the share of earnings attributable to Udacity amounted to €-10 million (previous year: €-8 million).

The investment was tested for impairment as of December 31, 2018. Taking into account current growth targets, recognition of impairment was not required for Udacity. In the event of an increase in the discount rate by 0.6 percentage points and a decrease in the long-term growth rate of 1.2 percentage points, the recoverable amount is lower than the carrying amount. The interest in HotChalk, which as of December 31, 2017, had been accounted for using the equity method, has been fully consolidated since obtaining control in February 2018. Obtaining control resulted in derecognition of the investment previously accounted for using the equity method. Further details are presented in the section "Acquisitions and Disposals."

Of the total carrying amount of the investments in all individually immaterial associates, an additional €96 million (previous year: €84 million) is attributable to the three University Venture Funds, which invest in high-growth companies in the education sector. Bertelsmann holds between 47.3 percent and 100 percent of the shares in these funds. As operational management and investment decisions in particular are the responsibilities of the respective fund managers, there is significant influence, but control as defined by IFRS 10 does not exist despite an ownership interest of over 50 percent in some cases.

Results from Investments Accounted for Using the Equity Method

in € millions	2018	2017
Income from investments accounted for using the equity method	92	119
– joint ventures	29	33
– associates	63	86
Expenses from investments accounted for using the equity method	(35)	(56)
– joint ventures	(2)	(2)
– associates	(33)	(54)
Results from investments accounted for using the equity method	57	63
– joint ventures	27	31
– associates	30	32

In the financial year 2018, dividends received from investments accounted for using the equity method amounted to €86 million (previous year: €107 million).

12 Minority Stakes and Other Financial Assets

	Current		Non-current	
in € millions	12/31/2018	12/31/2017	12/31/2018	12/31/2017
Loans	23	24	55	39
Minority stakes in start-ups and fund investments	–	n/a	858	n/a
Other financial assets	–	n/a	211	n/a
Investments in affiliates	n/a	–	n/a	18
Other investments	n/a	–	n/a	516
Securities and financial assets	n/a	5	n/a	18
Derivative financial instruments	48	38	19	53
	71	67	1,143	644

The item "Minority stakes in start-ups and fund investments" mainly includes minority stakes purchased by the Bertelsmann Investments division. The fair value of its listed investments is measured on the basis of their market values and of its unlisted investments, when possible, on the basis of observable prices obtained as part of the most recently implemented qualified financing rounds, which meet the minimum requirements for volume and participants, taking into account life and development cycles of the entity. The item also includes so-called fund-of-fund investments, which are also measured at fair value through profit or loss. The measurement of their fair values is based on the valuations of the external management as presented in regular reporting and taking into account a fungibility discount. The gains and losses resulting from changes in the fair value are recognized as other operating income in the item "Fair value measurement of investments." The changes in carrying amounts of the financial instruments held by the Bertelsmann Investments division amounted to €152 million during the reporting period. In addition, the acquisitions made by Bertelsmann Investments during the reporting period and the recognition of the shares in associates held by Bertelsmann Investments contributed to the increase in this item.

Bertelsmann exercises the option granted by IFRS 9 to measure equity instruments at fair value through other comprehensive income mainly for individual immaterial investments and investments in affiliates, which are recognized in "Other financial assets."

At the end of the reporting period, financial assets of €29 million have been provided as collateral for liabilities (previous year: €13 million). Financial assets of €3 million (previous year: €4 million) were pledged with restrictions on disposal. No financial assets were provided as security for contingent liabilities to third parties in the financial years 2018 or 2017.

13 Inventories

in € millions	12/31/2018	12/31/2017
Program rights	1,095	1,020
Raw materials and supplies	118	102
Work in progress	102	125
Finished goods and merchandise	277	279
Advance payments	143	138
	1,735	1,664

In the financial year 2018, write-downs on inventories were recognized in the amount of €-147 million (previous year: €-161 million). In addition, reversals of write-downs on inventories were recognized in the amount of €102 million (previous year: €101 million). These are due to broadcasting factors for program rights and increased prices in some markets. As in the previous year, no inventories have been pledged as collateral for liabilities.

In the financial year 2018, the broadcast-based consumption of program rights recognized in profit or loss amounted to €2,120 million (previous year: €2,023 million). Expenses for raw materials and supplies amounting to €954 million (previous year: €961 million) were recognized, and the cost for merchandise amounted to €214 million (previous year: €205 million). Changes in inventories of work in progress and finished goods amounted to €70 million (previous year: €77 million). In addition own costs capitalized of €49 million were recognized (previous year: €42 million).

14 Trade and Other Receivables

in € millions	12/31/2018	12/31/2017
Non-current		
Trade receivables	28	27
Contract assets	–	n/a
Other receivables	31	60
Current		
Trade receivables	3,692	3,290
Contract assets	34	n/a
Receivables from participations	28	25
Other receivables	705	695

Trade receivables are due for payment generally within 12 months. The item "Contract assets" covers the conditional right to consideration for complete satisfaction of the contractual obligations in accordance with IFRS 15. As of January 1, 2018, this item amounted to €33 million. The item "Other receivables" includes receivables of €379 million (previous year: €366 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises receivables in the amount of €103 million (previous year: €103 million), relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of its financial services and then resold.

15 Other Non-Financial Assets

in € millions	12/31/2018	12/31/2017
Non-current		
Other non-financial assets	851	710
Current		
Other non-financial assets	1,002	868
– advance payments	489	447
– deferred items	224	191
– other tax receivables	100	82
– sundry non-financial assets	189	148

The non-current other non-financial assets relate to advance payments for royalties and licenses in the amount of €778 million (previous year: €659 million). Advance payments for royalties and licenses are generally written off if no recoupment is expected. The amount of these write-downs is based on management estimates of future sales volumes and price changes using historical data. Costs for obtaining and fulfilling contracts with customers are recognized and are immaterial, both individually and in total. The same applies to amount of amortization and impairment losses recognized for these costs in the reporting period.

16 Cash and Cash Equivalents

in € millions	12/31/2018	12/31/2017
Cash	1,369	1,384
Other securities < 3 months	36	56
	1,405	1,440

Cash includes bank balances and cash on hand. Cash equivalents include short-term, highly liquid securities with a term to maturity on acquisition of a maximum of three months. Cash and cash equivalents of €7 million (previous year: €1 million) were used as collateral for liabilities. As in the previous year, no restricted cash and cash equivalents existed as of the end of the reporting period.

17 Equity
Subscribed Capital

Number of shares	12/31/2018	12/31/2017
Ordinary shares	83,760	83,760
Total shares	83,760	83,760

Compared with the previous year, the subscribed capital of Bertelsmann SE & Co. KGaA remained unchanged at €1,000 million and comprises 83,760 registered shares (ordinary shares). As of December 31, 2018, foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) held 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the other 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft mbH (BVG) controls the voting rights at the General Meeting of Bertelsmann SE & Co. KGaA and personally liable partner Bertelsmann Management SE.

In the financial years 2018 and 2017, a dividend amounting to €180 million (a dividend of €2,149 per ordinary share in each year) was distributed to the shareholders.

The change in other comprehensive income after taxes is derived as follows:

Changes to Components of Other Comprehensive Income after Taxes

in € millions	2018				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	(110)	50	(60)	(67)	7
Changes in fair value of equity instruments	3	–	3	3	–
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Exchange differences	114	–	114	110	4
Cash flow hedges	36	(11)	25	19	6
Share of other comprehensive income of investments accounted for using the equity method	(2)	–	(2)	(2)	–
Other comprehensive income net of tax	41	39	80	63	17

in € millions	2017				
	Before-tax amount	Taxes	Net-of-tax amount	Attributable to Bertelsmann shareholders	Attributable to non-controlling interests
Items that will not be reclassified subsequently to profit or loss					
Remeasurement component of defined benefit plans	235	(59)	176	170	6
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	–	–
Items that will be reclassified subsequently to profit or loss when specific conditions are met					
Exchange differences	(432)	–	(432)	(361)	(71)
Available-for-sale financial assets	(16)	(2)	(18)	(16)	(2)
Cash flow hedges	(103)	31	(72)	(54)	(18)
Share of other comprehensive income of investments accounted for using the equity method	(8)	–	(8)	(7)	(1)
Other comprehensive income net of tax	(324)	(30)	(354)	(268)	(86)

In the financial year 2017, the item “Available-for-sale financial assets” comprised primarily the effects from the measurement of investments at fair value in the Bertelsmann Investments division. In addition, a correction of €8 million was made to the change in deferred taxes from the fair value measurement of cash flow hedges recognized in other comprehensive income in the comparative period.

Share-Based Payments

The Bertelsmann Group has granted cash-settled or equity-settled share-based payment awards.

There are various free share plans at Groupe M6, which belongs to RTL Group, open to directors and certain employees. The number of free shares granted to participants is approved by the Supervisory Board of Métropole Télévision SA in accordance with the authorization given by the General Meeting of Shareholders.

The terms and conditions of the grants are as follows, whereby all plans are settled by the physical delivery of shares:

Granting and Vesting Conditions (Groupe M6)

Free share plans	Maximum number of free shares granted (in thousands)[1)]	Remaining options (in thousands)	Vesting conditions
July 2016	440.60	–	2 years of service + performance conditions
July 2016	361.00	–	2 years of service + performance conditions
July 2017	307.20	296.80	2 years of service + performance conditions
July 2017	217.66	217.66	3 years of service + performance conditions
October 2017	8.92	8.92	3 years of service + performance conditions
July 2018	313.40	313.40	2 years of service + performance conditions
July 2018	247.10	247.10	3 years of service + performance conditions
Total	1,895.88	1,083.88	

1) Maximum number of free shares granted if the performance conditions are significantly exceeded. Such number could be reduced to zero if objectives are not met.

The free share plans are subject to performance conditions. The plans granted in July 2016, July 2017 and July 2018 are subject to Groupe M6 achieving its target growth in net consolidated result over the financial years 2016, 2017 and 2018, respectively. The second plan in July 2016 and the second plan in July 2017, the plan in October 2017 and the second plan in July 2018 are subject to a cumulative performance requirement over three years.

At the end of the year, 1,083,884 free shares are exercisable against 1,319,684 at the beginning of the year. During the year, 560,500 free shares were granted with 774,600 being exercised and 21,700 being forfeited.

Free share plans outstanding at the end of the year have the following terms:

Conditions for Free Share Plans (Groupe M6)

Expiry date	Number of shares (in thousands) 2018	Number of shares (in thousands) 2017
Free share plans		
2018	–	786
2019	297	534
2020	540	–
2021	247	–
	1,084	1,320

As of December 31, 2018, the market price of Métropole Télévision shares on the Paris Stock Exchange was €14.04 (December 31, 2017: €21.54).

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of fair value of the services received is measured based on a binomial model. Free shares are valued at the share price at the date they are granted less discounted future expected dividends, which employees are not entitled to receive during the vesting period.

Fair Values of Free Share Plans (Groupe M6)

					Personnel costs in € millions	
Grant date	Share price	Risk-free interest rate	Expected return	Option life	2018	2017
Free share plans						
5/11/2015	18.62 €	0.16%	4.80%	2 years	–	0.1
7/28/2015	18.38 €	0.22%	4.90%	2 years	–	1.9
7/28/2016	16.24 €	(0.10)%	5.50%	2 years	3.9	5.2
7/27/2017	20.59 €	(0.17)%	4.31%	2 years	4.0	1.7
10/2/2017	20.59 €	(0.17)%	4.31%	2 years	0.1	–
7/25/2018	16.92 €	(0.10)%	5.66%	2 years	1.4	–
Total					9.4	8.9

There are additional share-based payments within the Bertelsmann Group that are immaterial on a stand-alone basis.

18 Provisions for Pensions and Similar Obligations

in € millions	12/31/2018	12/31/2017
Defined benefit obligation	1,669	1,606
Obligations similar to pensions	69	79
	1,738	1,685

The Bertelsmann Group operates various pension plans for current and former employees and their surviving dependents. The model of such plans varies according to the legal, fiscal and economic environment of the country concerned. These company pension plans include both defined contribution and defined benefit plans.

In the case of defined contribution plans, the company makes payments into an external pension fund or another welfare fund through a statutory, contractual or voluntary model. The company has no obligation to provide further benefits once it has made these payments, so no provisions are recognized. Expenses for defined contribution plans in the amount of €49 million were recognized in the financial year 2018 (previous year: €46 million).

All other pension plans are defined benefit plans. The US companies' obligations for healthcare costs for employees after they retire (medical care plans) are also defined benefit obligations and are included in the provisions on the balance sheet. For all the retirement benefit plans, a distinction must be made as to whether or not these are financed through an external investment fund.

Net Defined Benefit Liability Recognized in the Balance Sheet

in € millions	12/31/2018	12/31/2017
Present value of defined benefit obligation of unfunded plans	818	826
Present value of defined benefit obligation of funded plans	3,302	3,347
Total present value of defined benefit obligation	4,120	4,173
Fair value of plan assets	(2,502)	(2,591)
Impact from asset ceiling	1	1
Net defined benefit liability recognized in the balance sheet	1,619	1,583
– thereof provisions for pensions	1,669	1,606
– thereof other assets	50	23

Provisions are recognized for these defined benefit plans. These are mostly flat salary plans and final salary plans.

Defined Benefit Plans

in € millions	12/31/2018	12/31/2017
Flat salary plans/plans with fixed amounts	2,228	2,254
Final salary plans	1,256	1,265
Career average plans	424	416
Other commitments given	160	181
Medical care plans	52	58
Present value of defined benefit obligation	4,120	4,174
– thereof capital commitments	253	246

The obligations and plan assets available for the existing pension plans are, in some cases, exposed to demographic, economic and legal risks. The demographic risks are primarily the longevity risk for pensioners. Economic risks include, in this respect, mostly unforeseeable developments on the capital markets and the associated impacts on plan assets and pension obligations. Legal risks can result from restrictions to investments and minimum funding requirements. A Group-wide pension guideline was introduced in 2004 to substantially minimize these risks. This stipulates that all new pension plans are, as a rule, only to be designed as defined contribution plans so that the charges from benefit commitments are always acceptable, calculable and transparent, and so that no risks can arise that the company cannot influence. In addition, the Bertelsmann Group aims, in particular, to transfer existing final salary-related pension agreements to plans with fixed amounts and capital commitments that are independent from trends. As a result of these measures, the obligations are almost entirely due to the plans that have been closed.

The Bertelsmann Group has minimum funding obligations for plans in the United States and the United Kingdom. The pension plan in the United States is subject to the minimum funding agreements according to the "Employee Retirement Income Security Act of 1974" (ERISA). In general, the aim under this agreement is to have a fully funded pension plan so that the annual contributions to the plan assets are limited to the pension entitlements the insured employee has earned during the year, as is the case for a defined contribution plan. If the pension obligations are not fully covered by the plan assets, an additional amount sufficient to ensure full financing over a seven-year period must be applied in excess of this contribution. The plans in the United Kingdom are subject to the "Pensions Act 2004," which includes reviewing the full financing of the pension plan from an actuarial perspective every three years with annual monitoring and, if necessary, eliminating any deficits that may have arisen by means of further additions to plan assets. There are no other material regulatory conditions over and above the minimum funding regulations in the United States and the United Kingdom.

Furthermore, one Group company participated in a multi-employer plan with other non-affiliated companies until December 31, 2014. As the relevant information required to account for this as a defined benefit plan was neither available on time nor available to a sufficient extent, this benefit plan was carried in the Consolidated Financial Statements in line with the requirements for defined contribution benefit plans. In the financial year 2015, the withdrawal from the plan with retrospective effect from January 1, 2015, was declared. The resulting withdrawal obligation shall be settled by a lump sum for which a provision in the amount of €16 million was recognized in 2014 and which is shown in the balance sheet position "Other provisions" under other employee benefits. The negotiations concerning the agreement of the withdrawal modalities started in the first half of 2017 are still ongoing. Since April 2017, the company has been making monthly contribution payments, which are expected to amount to €1 million in the financial year 2019. The provision was still carried at €16 million as of December 31, 2018.

The provisions are determined using actuarial formulas in accordance with IAS 19. The amount of provisions depends on employees' length of service with the company and their pensionable salary. Provisions are computed using the projected unit credit method, in which the benefit entitlement earned is allocated to each year of service, thus assuming an increasing cost of service in comparison to the entry age normal method. When identifying the present value of the pension obligation, the underlying interest rate is of material importance. In the Bertelsmann Group, this is based on the "Mercer Yield Curve Approach." With this approach, separate spot-rate yield curves are created for the eurozone, the United Kingdom and the United States on the basis of high-quality corporate bonds. In order to appropriately present the time value of money in accordance with IAS 19.84, the basis does not consider either spikes for which the risk estimate may be substantially higher or lower, or bonds with embedded options that distort interest rates. As of December 31, 2018, biometric calculations of domestic plans are based for the first time on the 2018 G mortality tables (previous year: 2005 G) of Heubeck-Richttafeln-GmbH. The Heubeck mortality tables reflect the latest statistics of the statutory pension insurance system and of the Federal Statistical Office. The effect resulting from the change of the mortality tables amounts to €40 million as of December 31, 2018, and is recognized in the actuarial losses from changes in demographic assumptions. Comparable country-specific calculation methods are used for foreign plans.

Further significant actuarial assumptions were made as follows:

Actuarial Assumptions

	12/31/2018		12/31/2017	
	Germany	Foreign	Germany	Foreign
Discount rate	2.08%	2.91%	2.06%	2.58%
Rate of salary increase	2.25%	3.05%	2.25%	3.03%
Rate of pension increase	1.55%	2.96%	1.56%	3.00%

An increase or decrease in the assumptions set out above compared to the assumptions actually applied would have had the following effects on the present value of the defined benefit obligation as of December 31, 2018:

Effect of Actuarial Assumptions

in € millions	Increase	Decrease
Effect of 0.5 percentage point change in discount rate	(299)	340
Effect of 0.5 percentage point change in rate of salary increase	38	(35)
Effect of 0.5 percentage point change in rate of pension increase	144	(130)
Effect of change in average life expectancy by 1 year	157	(156)

In order to determine the sensitivity of the longevity, the mortality rates for all beneficiaries were reduced or increased evenly, so that the life expectancy of a person of a country-specific retirement age increases or decreases by one year.

Changes in the present value of defined benefit obligations and plan assets in the reporting period were as follows:

Development of the Defined Benefit Plans

	Defined benefit obligation (I)		Fair value of plan assets (II)		Net defined benefit balance (I)-(II)[1]	
in € millions	2018	2017	2018	2017	2018	2017
Balance as of 1/1	4,173	4,369	2,591	2,479	1,582	1,890
Current service cost	61	71	–	–	61	71
Interest expenses	89	86	–	–	89	86
Interest income	–	–	59	52	(59)	(52)
Past service cost	2	(7)	–	–	2	(7)
Income and expenses for defined benefit plans recognized in the combined income statement	**152**	**150**	**59**	**52**	**93**	**98**
Income/expense on plan assets excluding amounts included in net interest income and net interest expenses	–	–	(162)	80	162	(80)
Actuarial gains (-) and losses (+)						
– changes in financial assumptions	(64)	(136)	–	–	(64)	(136)
– changes in demographic assumptions	34	(11)	–	–	34	(11)
– experience adjustments	(22)	5	–	12	(22)	(7)
Remeasurements for defined benefit plans recognized in the combined statement of comprehensive income	**(52)**	**(142)**	**(162)**	**92**	**110**	**(234)**
Contributions to plan assets by employer	–	–	41	37	(41)	(37)
Contributions to plan assets by employees	3	3	3	3	–	–
Pension payments	(148)	(159)	(25)	(30)	(123)	(129)
Cash effects from settlements	(6)	(1)	(6)	(1)	–	–
Change of consolidation scope	(1)	–	–	–	(1)	–
Changes in foreign exchange rates	4	(51)	2	(41)	2	(10)
Other changes	(5)	4	(1)	–	(3)	5
Other reconciling items	**(153)**	**(204)**	**14**	**(32)**	**(166)**	**(171)**
Balance as of 12/31	4,120	4,173	2,502	2,591	1,619	1,583
thereof						
Germany	3,234	3,221	1,761	1,830	1,472	1,391
United Kingdom	476	531	525	551	(48)	(20)
United States	191	199	147	144	45	55
Other European countries	192	191	57	53	135	139
Other countries	27	31	12	13	15	18

1) For calculating the “Net defined benefit balance,” the effects of the asset ceiling in accordance with IAS 19 amounting to €1 million (previous year: €1 million) are taken into account in the item “Other changes.” The asset ceiling is the case if the plan assets exceed the obligations. One of the plans in the Group shows an insignificant amount of overfunding.

Of the contributions to plan assets, €12 million (previous year: €3 million) pertains to Germany. Employer contributions to plan assets are expected to amount to €15 million in the next financial year. Reimbursement rights for defined benefit obligations in Germany amount to €24 million (previous year: €18 million) and are recognized in the balance sheet position “Trade and other receivables.”

The expenses for defined benefit plans are broken down as follows:

Expenses for Defined Benefit Plans

in € millions	2018	2017
Current service cost	61	71
Past service cost and impact from settlement	2	(7)
Net interest expenses	30	34
Net pension expenses	93	98

The portfolio structure of plan assets is composed as follows:

Portfolio Structure of Plan Assets

in € millions	12/31/2018	12/31/2017
Debt instruments[1]	1,713	1,658
Equity instruments[1]	511	659
Qualifying insurance policies	141	140
Other funds	85	78
Cash and cash equivalents	28	43
Derivatives	13	4
Property	11	8
Other	–	1
Fair value of plan assets	2,502	2,591

1) For almost all equity and debt instruments, market prices are listed on an active market.

The plan assets in the Bertelsmann Group are used exclusively for the fulfillment of benefit obligations. To avoid a concentration of risk, plan assets are invested in various classes of investments. The majority of plan assets are managed by Bertelsmann Pension Trust e.V. under a contractual trust arrangement (CTA) for pension commitments of Bertelsmann SE & Co KGaA and some of the German subsidiaries. There is no funding requirement for the CTA. No contribution was made to plan assets during the reporting period. The trust assets were invested in accordance with the investment guideline of the beneficiary, using a long-term total return approach. This approach is based on the aim of using strategic asset allocation to generate a suitable return in the long term regardless of short-term market fluctuations and/or crises. The management board of the pension trust is responsible for the investment and regularly informs the beneficiary of the status and performance of the pension assets.

The weighted average duration of the pension obligations on December 31, 2018, was 16 years (previous year: 17 years).

The maturity profile of the anticipated undiscounted pension payments is presented in the following table:

Maturity Profile of Pension Payments

in € millions	Expected pension payments
2019	156
2020	154
2021	159
2022	167
2023	170
2024–2028	911

Obligations similar to pensions relate to provisions for bonuses for employee service anniversaries, amounts due but not yet paid to defined contribution plans, partial retirement and severance payments at retirement. Severance payments at retirement are made when employees leave the company, and are based on statutory obligations, primarily in Italy and Austria. Provisions for employee service anniversary bonuses and severance payments at retirement are recognized in the same way as defined benefit plans, but with actuarial gains and losses recognized in profit or loss. Employees in Germany who are at least 55 years old and have a permanent employment contract with the company qualify for the partial-retirement schemes. The partial-retirement phase lasts two to five years.

The following table shows the breakdown in obligations similar to pensions:

Breakdown of Obligations Similar to Pensions

in € millions	12/31/2018	12/31/2017
Provisions for severance payments	32	36
Provisions for employee service anniversaries	27	28
Provisions for old-age part-time schemes	6	10
Other	4	5
Obligations similar to pensions	69	79

19 Other Provisions

in € millions	12/31/2017	12/31/2017 of which > 1 year	Additions	Reversal	Usage	Other effects	Change of consolidation scope	Accrued interest	12/31/2018	12/31/2018 of which > 1 year
Onerous contracts	160	49	94	(11)	(85)	5	–	1	164	61
Litigation	106	42	19	(28)	(11)	(1)	(2)	–	83	40
Restructuring	71	4	63	(8)	(49)	–	–	–	77	4
Other employee benefits	25	–	4	(1)	(3)	1	–	–	26	–
Guarantees and warranties	9	–	3	(2)	(3)	1	–	–	8	–
Sales and distribution	7	–	4	–	(1)	(5)	–	–	5	–
Other	71	31	25	(16)	(16)	6	1	–	71	30
	449	126	212	(66)	(168)	7	(1)	1	434	135

The provisions for onerous contracts in the amount of €89 million (previous year: €107 million) concern RTL Group and were recognized mainly for program rights. Of that amount, a total of €74 million (previous year: €74 million) relates to Mediengruppe RTL Deutschland and an additional €15 million (previous year: €33 million) to Groupe M6. Additions relate to provisions for onerous contracts total €41 million for movies and series, and €18 million for sports events at RTL Group. A further €53 million (previous year: €33 million) of the provisions for onerous contracts is attributable to Penguin Random House, the increase in which is mainly attributable to adjusted subleases estimates in the determination of losses from lease contracts.

Provisions for litigation totaling €71 million (previous year: €94 million) also pertain mainly to RTL Group companies. They cover expected losses from partly multiannual court proceedings and extrajudicial disputes. Please refer to the risk report in the Combined Management Report for information on antitrust litigation. In accordance with IAS 37, restructuring provisions include termination benefits and other costs relating to the discontinuation of business activities. Provisions in the amount of €77 million (previous year: €71 million) are recognized for various restructuring programs within the Bertelsmann Group. The additions relate in the amount of €35 million mainly to restructuring plans in the Arvato division.

The provisions for other employee benefits in the amount of €16 million (previous year: €16 million) relate to an obligation in connection with the withdrawal from a multi-employer plan. Further details are presented in note 18 "Provisions for Pensions and Similar Obligations." The remaining other provisions include a provision in the amount of €22 million (previous year: €24 million) for compensation obligations from pension entitlements for employees at the Prinovis location in Ahrensburg toward Axel Springer SE.

20 Profit Participation Capital

in € millions	12/31/2018	12/31/2017
Profit participation capital 1992	23	23
Profit participation capital 2001	390	390
	413	413

The market value of the 2001 profit participation certificates with a closing rate of 317.01 percent on the last day of trading in the past financial year on the Frankfurt Stock Exchange was €901 million (previous year: €950 million with a rate of 334.00 percent) and, correspondingly, €33 million for the 1992 profit participation certificates with a rate of 193.00 percent (previous year: €34 million with a rate of 199.00 percent). The market values are based on level 1 of the fair value hierarchy. Further information on profit participation capital is presented in detail in the Combined Management Report.

21 Financial Debt

Financial debt includes all of the Bertelsmann Group's interest-bearing liabilities to banks and capital markets as of the end of the reporting period. Carrying amounts are calculated as follows:

Current and Non-Current Financial Debt

	Current		Non-current			
			Remaining term in years			
in € millions	12/31/2018	12/31/2017	1 to 5 years	> 5 years	12/31/2018	12/31/2017
Bonds	100	–	1,891	2,481	4,372	3,725
Promissory notes	210	200	100	149	249	459
Liabilities to banks	248	314	7	1	8	10
Finance lease liabilities	7	10	32	–	32	37
Other financial debt	102	144	9	–	9	20
	667	668	2,039	2,631	4,670	4,251

The Bertelsmann Group has access to floating-rate and fixed-rate funds through various contractual arrangements. Financial debt is generally unsecured.

In July 2018, Bertelsmann issued in a private placement a floating rate note with a term of up to two years and a volume of €200 million. This was repaid early in December 2018 by exercising an agreed termination option. In addition, in September 2018 Bertelsmann placed a publicly listed bond of €750 million with a term of seven years. The promissory note due in June 2018 in the amount of €200 million was repaid on time. At the end of the reporting period, the Group had bonds, private placements and promissory notes outstanding with a nominal volume of €4,960 million (previous year: €4,410 million). To finance a short-term funding requirement, a bank loan of US$250 million was taken out in the financial year 2017. This was fully repaid in 2018.

The differences in carrying amount versus nominal amount in the table below result from transaction costs, premiums and discounts.

Bonds and Promissory Notes

Interest rate; emission; maturity; fixed interest	Nominal amount	in € millions Carrying amount 12/31/2018	Carrying amount 12/31/2017	Fair value 12/31/2018	Fair value 12/31/2017
0.090%; 2016; 2018; fixed interest promissory note	200	–	200	–	200
0.110%; 2017; 2019; fixed interest promissory note	150	150	150	150	150
4.207%; 2012; 2019; fixed interest promissory note	60	60	60	61	63
3-Mon.-EURIBOR + 40 Bp.; 2014; 2019; floating rate note	100	100	100	100	100
0.774%; 2015; 2020; fixed interest promissory note	100	100	100	102	102
0.250%; 2017; 2021; fixed interest bond[1]	500	498	497	502	502
2.625%; 2012; 2022; fixed interest bond[1]	750	746	745	811	829
1.500%; 2017; 2024; fixed interest bond	50	50	50	52	52
1.750%; 2014; 2024; fixed interest bond[1]	500	497	497	525	536
1.250%; 2018; 2025; fixed interest bond[1]	750	743	–	750	–
1.787%; 2015; 2025; fixed interest promissory note	150	149	149	159	157
1.125%; 2016; 2026; fixed interest bond[1]	500	495	494	496	509
3.700%; 2012; 2032; fixed interest bond	100	99	99	126	125
3.000%; 2015; 2075; fixed interest hybrid bond[1]	650	647	647	636	687
3.500%; 2015; 2075; fixed interest hybrid bond[1]	600	597	596	578	632
		4,931	4,384	5,048	4,644

1) Listed.

The documentation of the bonds from Bertelsmann SE & Co. KGaA in 2012, 2014, 2016, 2017 and 2018 is within the framework of a base documentation for debt issuance programs. The hybrid bonds and promissory notes as well as the unlisted bond of the financial year 2017 were issued on the basis of separate documentation. The bonds mainly have a rating of "Baa1" (Moody's) and "BBB+" (Standard & Poor's). The debt issuance program was updated in April 2018. The framework documentation allows Bertelsmann SE & Co. KGaA to place bonds with a total volume of up to €4 billion on the capital market. Transaction costs and agreed discounts or premiums are taken into account in the interest result over the term, impacting the carrying amount of the bonds and promissory notes. These led to a difference in the nominal volume of €29 million (previous year: €26 million) at the end of the year.

As a rule, the quoted prices at the end of the reporting period are used to determine the fair value of the bonds issued. On December 31, 2018, the cumulative fair value of the listed bonds totaled €4,298 million (previous year: €3,695 million) with a nominal volume of €4,250 million (previous year: €3,500 million) and a carrying amount of €4,223 million (previous year: €3,476 million). The stock market prices are based on level 1 of the fair value hierarchy.

The fair values of private placements and promissory notes are determined using actuarial methods based on yield curves adjusted for the Group's credit margin. The interest premium results from the market price for credit-default swaps at the end of the respective reporting periods. Fair value is measured on the basis of discount rates ranging from -0.34 percent to 1.69 percent. The fair values of the private placements and promissory notes are based on level 2 of the fair value hierarchy.

Credit Facilities

The Bertelsmann Group has access to a syndicated loan agreement entered into with major international banks in the amount of €1,200 million (previous year: €1,200 million). Bertelsmann SE & Co. KGaA can draw down this credit facility using floating-rate loans in euros, US dollars and pounds sterling, based on EURIBOR or LIBOR, on a revolving basis. In addition, Bertelsmann has access to further syndicated and bilateral credit facilities in the amount of €470 million (previous year: €470 million), which can also be drawn down using floating-rate loans, based on EURIBOR, on a revolving basis. As of December 31, 2018, credit facilities were taken out in the amount of €150 million (previous year: €10 million).

Finance Lease Liabilities

Finance leases exist for the following assets:

Leased Assets

	12/31/2018		12/31/2017	
in € millions	Acquisition costs	Net carrying amount	Acquisition costs	Net carrying amount
Land, rights equivalent to land and buildings	80	30	89	36
Technical equipment and machinery	3	1	5	1
Other equipment, fixtures, furniture and office equipment	9	4	12	4
	92	35	106	41

The Group's finance lease activities primarily relate to long-term agreements for office space. The Group generally has the option to acquire such properties at the end of the lease term. Finance leases for buildings are generally subject to non-cancelable minimum lease terms of approximately 20 years.

The minimum lease payments for finance leases are presented in the following table:

Minimum Lease Payments for Finance Leases

	12/31/2018			12/31/2017		
in € millions	Nominal amount of lease payments	Discount amounts	Present value	Nominal amount of lease payments	Discount amounts	Present value
Up to 1 year	7	–	7	10	–	10
1 to 5 years	34	2	32	41	4	37
Over 5 years	–	–	–	–	–	–
	41	2	39	51	4	47

As in the previous year, no subleases were in place as part of finance lease agreements as of the end of the reporting period.

22 Liabilities

in € millions	12/31/2018	12/31/2017
Non-current		
Trade payables	174	143
Derivative financial instruments	28	14
Sundry financial payables	151	209
Contract liabilities	11	n/a
Sundry non-financial payables	384	391
Current		
Trade payables	3,530	3,453
Refund liabilities	440	n/a
Derivative financial instruments	28	33
Sundry financial payables	720	827
Contract liabilities	595	n/a
Sundry non-financial payables	1,244	1,709
– personnel-related liabilities	699	633
– tax liabilities	196	204
– social security liabilities	116	102
– deferred items	19	233
– received advance payments	–	220
– other	214	317

With the first-time application of IFRS 15, reclassifications were made from "Deferred items" and "Received advance payments" to "Contract liabilities" in the amount of €538 million. The item "Contract liabilities" includes payments received by Bertelsmann in advance; that is, prior to satisfaction of the contractual obligations in accordance with IFRS 15. They are recognized as revenue as soon as the contractual obligation has been rendered. Accordingly, revenues amounting to €405 million were recognized in the financial year 2018, which were included in the balance of contract liabilities at the beginning of the financial year. As of December 31, 2018, the contract liabilities are primarily attributable to services to be provided by the Arvato division, as a rule in the following period.

In accordance with IFRS 15, the item "Refund liabilities" mainly comprises liabilities for expected returns of the Penguin Random House and Gruner + Jahr divisions of €296 million. Correspondingly, in the balance sheet position "Other non-financial assets," an asset for an immaterial amount is recognized for the customers' right to recover products from customer upon settling the refund liability. Non-current sundry financial payables include liabilities from put options relating to shareholders with non-controlling interests of €46 million (previous year: €67 million), minority interests in partnerships of €45 million (previous year: €41 million) and liabilities from the acquisition of assets in the amount of €22 million (previous year: €48 million). The current sundry financial payables include among others payables of €97 million (previous year: €67 million) from the Arvato Financial Solutions business unit, which were recognized in relation to the receivables management service provided. In addition, the item comprises payables in the amount of €103 million (previous year: €86 million) relating to accounts receivables sold, which are acquired by Arvato Financial Solutions from third parties in the course of its financial services and then resold. The item also comprise liabilities from the acquisition of assets in the amount of €94 million (previous year: €134 million) and liabilities to participations in the amount of €18 million (previous year: €28 million).

23 Off-Balance-Sheet Liabilities

Contingent Liabilities and Other Commitments

in € millions	12/31/2018	12/31/2017
Guarantees	15	28
Rental and lease commitments for already used real estate and movables	1,367	1,475
Commitments from assets under construction	238	185
Other commitments	3,408	3,522
	5,028	5,210

Commitments from assets under construction result from lease contracts for assets, which were not completed at the end of the reporting period. The right of use will begin in future periods. Of the commitments, €75 million (previous year: €36 million) relates to periods between one and five years, and €158 million (previous year: €148 million) relates to periods of more than five years. Of other commitments, €2,386 million (previous year: €2,481 million) pertains to RTL Group. These relate to supply agreements for productions and co-productions, contracts for TV licenses and broadcasting rights, as well as other rights and services. A further €832 million (previous year: €786 million) of other commitments pertains to Penguin Random House, which represents the portion of obligations to authors for which no payments have yet been made and where future payments are contingent upon other events (such as delivery and acceptance of manuscripts). Other commitments of €17 million (previous year: €18 million) are for the acquisition of property, plant and equipment.

The following minimum lease payments exist from all of the Group's long-term rental commitments classified as operating leases:

Minimum Lease Payments for Operating Leases

in € millions	12/31/2018	12/31/2017
Nominal amount		
Up to 1 year	283	276
1 to 5 years	664	653
Over 5 years	420	546
	1,367	1,475
Present value	1,161	1,261

These commitments largely concern real estate leases. They are partially offset by expected minimum lease payments from subleases with a nominal amount of €11 million (previous year: €14 million). The net present values, calculated considering country-specific interest rates, show all of the net payments required to settle the obligation. The existing leases have varying terms and also include renewal options in some cases.

24 Additional Disclosures on Financial Instruments

Both of the following tables show the carrying amounts and measurement categories of financial assets and financial liabilities in accordance with IFRS 9 as of December 31, 2018:

Carrying Amounts and Measurement Categories of Financial Assets

in € millions	12/31/2018
Financial assets measured at amortized cost	
– loans	70
– trade receivables	3,720
– receivables from participations	28
– sundry financial receivables	665
– cash	1,369
– other securities < 3 months	36
Financial assets measured at fair value through other comprehensive income	74
Primary financial assets measured at fair value through profit or loss	
– loans	8
– fund-of-fund investments	173
– other	847
Derivative financial instruments	67
	7,057

Carrying Amounts and Measurement Categories of Financial Liabilities

in € millions	12/31/2018
Financial liabilities measured at amortized cost	
– profit participation capital	413
– bonds and promissory notes	4,931
– liabilities to banks	256
– other financial debt	111
– trade payables	3,704
– liabilities to participations	18
– other	1,215
Primary financial liabilities measured at fair value through profit or loss	31
Derivative financial instruments	56
	10,735

The fair values of the bonds and promissory notes are presented in note 21 “Financial Debt.” The carrying amounts of the other financial assets and liabilities measured at amortized cost represent a reasonable approximation of fair value.

Both of the following tables show the carrying amounts and measurement categories of financial instruments in accordance with IAS 39 as of December 31, 2017:

in € millions	Category in accordance with IAS 39						Balance as of 12/31/2017
	Loans and receivables	Available-for-sale		Financial assets initially recognized at fair value through profit or loss	Financial assets held for trading	Derivatives with hedge relation	
Measurement	At amortized cost	At cost	Fair value recognized in equity	Fair value recognized in profit or loss	Fair value recognized in profit or loss		
Loans	63	–	–	–	–	–	63
Investments in affiliates	–	3	15	–	–	–	18
Other investments	–	25	491	–	–	–	516
Securities and financial assets	–	1	3	19	–	–	23
Derivative financial instruments	–	–	–	–	87	4	91
Trade receivables	3,317	–	–	–	–	–	3,317
Receivables from participations	25	–	–	–	–	–	25
Sundry financial receivables	755	–	–	–	–	–	755
Cash	1,384	–	–	–	–	–	1,384
Other securities < 3 months	56	–	–	–	–	–	56
	5,600	29	509	19	87	4	6,248

in € millions	Category in accordance with IAS 39					Balance as of 12/31/2017
	Financial liabilities	Financial liabilities initially recognized at fair value through profit or loss	Financial liabilities held for trading	Derivatives with hedge relation	Payables out of scope of IAS 39	
Measurement	At amortized cost	Fair value recognized in profit or loss	Fair value recognized in profit or loss			
Profit participation capital	413	–	–	–	–	413
Bonds and promissory notes	4,384	–	–	–	–	4,384
Liabilities to banks	324	–	–	–	–	324
Finance lease liabilities	–	–	–	–	47	47
Other financial debt	164	–	–	–	–	164
Trade payables	3,596	–	–	–	–	3,596
Liabilities to participations	28	–	–	–	–	28
Derivative financial instruments	–	–	24	23	–	47
Sundry financial payables	964	44	–	–	–	1,008
	9,873	44	24	23	47	10,011

As of December 31, 2017, financial assets amounting to €509 million were classified as available for sale and measured at fair value through other comprehensive income. These financial assets, which are primarily attributable to minority stakes in other entities and so-called fund-of-fund investments purchased by the Bertelsmann Investments division, will continue to be measured at fair value; however, as a rule, fluctuations in the fair value will be recognized in profit or loss in accordance with IFRS 9. The amounts related to these financial assets previously recognized in other comprehensive income totaling €69 million were reclassified to other retained earnings as of January 1, 2018.

Financial Assets Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2018
Financial assets measured at fair value	110	9	983	1,102
Primary and derivative financial assets held for trading	–	51	–	51
Derivatives with hedge relation	–	16	–	16
	110	76	983	1,169

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2017
Financial assets initially recognized at fair value through profit or loss	4	15	–	19
Available-for-sale financial assets	134	1	374	509
Primary and derivative financial assets held for trading	–	87	–	87
Derivatives with hedge relation	–	4	–	4
	138	107	374	619

It is possible to allocate the financial instruments measured at fair value in the balance sheet to the three levels of the fair value hierarchy by category, based on the tables showing carrying amounts and measurement categories for the respective financial year. The financial assets of levels 1 and 3 mainly pertain to investments held by the Bertelsmann Investments division, which were recognized at fair value.

Financial Assets Measured at Fair Value Based on Level 3

in € millions	Financial assets measured at fair value	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2018	428	–	428
Total gain (+) or loss (-)	208	–	208
– in profit or loss	197	–	197
– in other comprehensive income	11	–	11
Purchases	276	–	276
Sales/settlements	(133)	–	(133)
Transfers out of/into level 3 (including first-time classification on level 3)	204	–	204
Balance as of 12/31/2018	983	–	983
Gain (+) or loss (-) for assets still held at the end of the reporting period	180	–	180

in € millions	Available-for-sale financial assets	Primary and derivative financial assets held for trading	Total
Balance as of 1/1/2017	371	3	374
Total gain (+) or loss (-)	(30)	–	(30)
– in profit or loss	(9)	–	(9)
– in other comprehensive income	(21)	–	(21)
Purchases	94	–	94
Sales/settlements	(76)	(3)	(79)
Transfers out of/into level 3 (including first-time classification on level 3)	15	–	15
Balance as of 12/31/2017	374	–	374
Gain (+) or loss (-) for assets still held at the end of the reporting period	(9)	–	(9)

Financial Liabilities Measured at Fair Value Categorized Using the Fair Value Measurement Hierarchy

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2018
Financial liabilities measured at fair value through profit or loss	–	–	31	31
Primary and derivative financial liabilities held for trading	–	52	–	52
Derivatives with hedge relation	–	4	–	4
	–	56	31	87

in € millions	Level 1: Quoted prices in active markets	Level 2: Observable market data	Level 3: Unobservable market data	Balance as of 12/31/2017
Financial liabilities initially recognized at fair value through profit or loss	–	–	44	44
Primary and derivative financial liabilities held for trading	–	24	–	24
Derivatives with hedge relation	–	23	–	23
	–	47	44	91

Financial Liabilities Measured at Fair Value Based on Level 3

in € millions	Financial liabilities measured at fair value through profit or loss	Total
Balance as of 1/1/2018	44	44
Total gain (-) or loss (+)	(8)	(8)
– in profit or loss	(8)	(8)
– in other comprehensive income	–	–
Purchases	9	9
Settlements	(14)	(14)
Transfers out of/into level 3	–	–
Balance as of 12/31/2018	31	31
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	(4)	(4)

in € millions	Financial liabilities initially recognized at fair value through profit or loss	Total
Balance as of 1/1/2017	48	48
Total gain (-) or loss (+)	3	3
– in profit or loss	5	5
– in other comprehensive income	(2)	(2)
Purchases	23	23
Settlements	(30)	(30)
Transfers out of/into level 3	–	–
Balance as of 12/31/2017	44	44
Gain (-) or loss (+) for liabilities still held at the end of the reporting period	–	–

Level 1:
The fair value of the listed financial instruments is determined on the basis of stock exchange listings at the end of the reporting period.

Level 2:
For measuring the fair value of unlisted derivatives, Bertelsmann uses various financial methods reflecting the prevailing market conditions and risks at the respective balance sheet dates. Irrespective of the type of financial instrument, future cash flows are discounted at the end of the reporting period based on the respective market interest rates and yield curves at the end of the reporting period. The fair value of forward exchange transactions is calculated using the average spot prices at the end of the reporting period and taking into account forward markdowns and markups for the remaining term of the transactions. The fair value of interest rate derivatives is calculated on the basis of the respective market rates and yield curves at the end of the reporting period. The fair value of forward commodity transactions is derived from the stock exchange listings published at the end of the reporting period. Any mismatches to the standardized stock exchange contracts are reflected through interpolation or additions.

Level 3:
If no observable market data is available, fair value measurement is based primarily on cash flow-based valuation techniques. As a rule, so-called qualified financing rounds are used for minority stakes in the Bertelsmann Investments division. Listed financial instruments with contractual lock-ups held by Bertelsmann are also based on level 3.

The measurement of financial assets and financial liabilities according to level 2 and level 3 requires management to make certain assumptions about the model inputs, including cash flows, discount rate and credit risk, as well as the life and development cycle of start-up investments.

The net result from financial instruments for the financial year 2018 are explained in each of the relevant notes. For the sake of clarity, the net result from financial instruments for the financial year 2017 is presented in the following table:

in € millions	Loans and receivables	Available-for-sale financial assets	Financial assets initially recognized at fair value through profit or loss	Financial liabilities at amortized cost	Financial liabilities initially recognized at fair value through profit or loss	Derivatives with hedge relation	Financial instruments held for trading	Other currency translation differences
From dividends	–	10	–	–	–	–	–	–
From interest	7	–	–	(110)	–	(1)	(23)	–
From impairment	12	(23)	–	–	–	–	–	–
From fair value measurement	–	–	–	–	(5)	–	6	–
From currency translation differences	–	–	–	–	–	–	135	(141)
From disposal/derecognition	(25)	178	–	12	–	–	–	–
Net income 2017	(6)	165	–	(98)	(5)	(1)	118	(141)

In the financial year 2017, other currency translation differences consisted of the exchange rate effects of the "Loans and receivables" and "Financial liabilities at amortized cost" categories.

Financial assets and liabilities are offset on the balance sheet if master netting agreements or similar agreements allow the Bertelsmann Group and the counterparty to reach settlement on a net basis. Settlement on a net basis is thus legally valid both as part of ordinary business activities and in the event of payment default by one of the parties. In addition, Bertelsmann enters transactions in financial derivatives that do not meet the criteria for offsetting on the balance sheet, as future events determine the right to offset. As in the previous year, in general the requirements for offsetting the financial instruments reported on the balance sheet are not met, so that no material offsetting was carried out as of December 31, 2018.

Credit Risk

In accordance with IFRS 9, Bertelsmann uses a simplified approach to measure expected credit losses on trade receivables and contract assets. According to this, the loss allowance is measured using lifetime expected credit losses. For this purpose, impairment matrices based on historic bad debt losses, maturity bands and expected credit losses were prepared. The impairment matrices were created for division-specific or business-unit-specific groups of receivables, each with similar default patterns. In addition, separate risk assessments are performed. Contract assets have substantially the same risk characteristics as trade receivables for the same types of contracts so that the expected loss rates for trade receivables are a reasonable approximation of the loss rates for contract assets.

Based on this, loss allowance as of December 31, 2018, was determined as follows for both trade receivables and contract assets:

Credit Risk for Trade Receivables and Contract Assets

in € millions	Collective impairment						Individual impairment
	Not overdue	Overdue					
		≤ 1 month	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	
Expected loss rate	0.47%	1.37%	2.04%	6.52%	18.42%	20.69%	n/a
Trade receivables and contract assets	2,365	439	147	46	38	29	878
Loss allowance for expected credit losses	(11)	(6)	(3)	(3)	(7)	(6)	(126)
Balance as of 12/31/2018	2,354	433	144	43	31	23	752

The expected loss rates correspond to the average rates for the respective for division-specific or business-unit-specific groups of receivables. In the financial year 2018, impairment losses and reversals of €-7 million were recognized on trade receivables and contract assets. The following table shows a reconciliation from the opening balance to the closing balance of loss allowances for trade receivables and contract assets in the financial year 2018:

Reconciliation of Loss Allowance for Trade Receivables and Contract Assets

in € millions	Trade receivables and contract assets
Balance as of 1/1	(162)
Additions	(55)
Usage	12
Reversal	48
Change of consolidation scope	(5)
Balance as of 12/31	(162)

Bertelsmann applies the general approach for all other financial assets that are subject to the expected credit loss model. The following table shows a reconciliation from the opening balance to the closing balance of loss allowances for the respective financial instrument for the financial year 2018:

Reconciliation of Loss Allowance for Other Financial Assets

in € millions	Loans	Sundry financial receivables	Purchased or originated financial assets which are credit impaired	Total 2018
Balance as of 1/1	(43)	(61)	(16)	(120)
Additions	(2)	(18)	(13)	(33)
Usage	5	2	3	10
Reversal	2	8	10	20
Change of consolidation scope	(1)	6	–	5
Exchange rate effect	–	–	–	–
Balance as of 12/31	(39)	(63)	(16)	(118)
– thereof 12-month expected credit loss	(25)	(19)	n/a	(44)
– thereof lifetime expected credit loss but not credit impaired	(1)	(34)	n/a	(35)
– thereof lifetime expected credit loss and credit impaired	(13)	(10)	n/a	(23)

The impairment loss identified in the financial year 2018 for cash and cash equivalents was immaterial.

In the previous period, the carrying amounts of financial assets not recognized at fair value through profit or loss were examined at the end of each reporting period to determine whether there was objective evidence of impairment. For financial assets carried at amortized cost, the loss in case of impairment corresponded to the difference between the carrying amount and the present value of the anticipated future cash flows – discounted using the original effective interest rate for the financial asset. If it was established that the fair value increased at a later measurement date, the impairment loss previously recognized was reversed through profit or loss up to a maximum of amortized cost. Impairment losses were not reversed in the case of unlisted equity instruments classified as available-for-sale assets and carried at cost. In case of impairment on available-for-sale assets carried at cost, the amount of the impairment loss was measured as the difference between the carrying amount of the financial asset and the present value of the estimated future cash flows discounted using the risk-adjusted interest rate.

The following table shows a maturity analysis of selected financial assets as of December 31, 2017:

in € millions	Neither impaired nor past due on the reporting date	Not individually impaired as of the reporting date and past due by: < 1 month	2 to 3 months	3 to 6 months	6 to 12 months	> 12 months	Gross value of accounts receivable individually impaired
Loans	62	–	–	–	–	–	47
Securities and financial assets	23	–	–	–	–	–	–
Trade receivables	2,549	472	150	61	29	33	173
Receivables from participations	24	–	–	1	–	–	–
Other selected receivables	653	27	15	13	16	44	20
Balance as of 12/31/2017	3,311	499	165	75	45	77	240

No loss allowance was recognized for unsettled receivables not yet due as of the end of the reporting period, as there was no indication of default.

Reconciliation of changes in impairment in accordance with IFRS 7 as of December 31, 2017, are shown in the following table:

in € millions	Balance as of 1/1	Additions	Usage	Reversal	Change of consolidation scope	Exchange rate effect	Balance as of 12/31
Loans	(48)	(15)	5	11	–	1	(46)
Trade receivables	(197)	(46)	23	66	(5)	9	(150)
Receivables from participations	(3)	–	3	–	–	–	–
Sundry financial receivables	(42)	(12)	14	6	–	1	(33)
Total 2017	(290)	(73)	45	83	(5)	11	(229)

The carrying amount of all receivables, loans and securities constitutes the Bertelsmann Group’s maximum default risk as of both December 31, 2017, and December 31, 2018.

The following table presents the contractually fixed undiscounted cash flows of the financial liabilities for settlement. The figures are based on undiscounted cash flows at the earliest date at which the Bertelsmann Group can be held liable for payment.

Maturity Analysis for Non-Derivative Financial Liabilities

	Carrying	Undiscounted cash flows			
in € millions	amount	Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	413	–	413	–	413
Fixed interest bonds and promissory notes	4,831	210	1,350	3,300	4,860
Floating rate bonds and promissory notes	100	100	–	–	100
Liabilities to banks	256	248	7	1	256
Finance lease liabilities	39	7	34	–	41
Other financial debt	111	102	9	–	111
Trade payables	3,704	3,530	160	14	3,704
Liabilities to participations	18	18	–	–	18
Other	1,293	1,141	88	64	1,293
Balance as of 12/31/2018	10,765	5,356	2,061	3,379	10,796
Profit participation capital	413	–	413	–	413
Fixed interest bonds and promissory notes	4,284	200	1,560	2,550	4,310
Floating rate bonds and promissory notes	100	–	100	–	100
Liabilities to banks	324	314	10	–	324
Finance lease liabilities	47	10	41	–	51
Other financial debt	164	144	16	4	164
Trade payables	3,596	3,453	127	16	3,596
Liabilities to participations	28	28	–	–	28
Other	1,008	799	161	48	1,008
Balance as of 12/31/2017	9,964	4,948	2,428	2,618	9,994

Current cash outflows from financial obligations are offset by planned cash inflows from receivables and other financial assets. To cover current cash flows, Bertelsmann SE & Co. KGaA also has adequate financial reserves in the amount of the cash and cash equivalents and unutilized lines of credit in place at the end of the reporting period.

Based on the remaining contractual terms of its financial liabilities at the end of the reporting period, the Bertelsmann Group will have to make the following future interest payments:

Future Interest Payments

	Undiscounted interest payments			
in € millions	Up to 1 year	1 to 5 years	Over 5 years	Total
Profit participation capital	45	136	–	181
Bonds and promissory notes	95	346	167	608
Liabilities to banks	5	–	–	5
Finance lease liabilities	2	1	–	3
Other financial debt	2	3	–	5
Balance as of 12/31/2018	149	486	167	802
Profit participation capital	45	181	–	226
Bonds and promissory notes	86	333	210	629
Liabilities to banks	8	1	–	9
Finance lease liabilities	2	3	–	5
Other financial debt	3	1	1	5
Balance as of 12/31/2017	144	519	211	874

Financial Services Related to Receivables Sold

In certain individual cases, Bertelsmann sells receivables purchased from third parties to financial intermediaries. The receivables sold relate primarily to short-term receivables, some covered by credit insurance, that Arvato Financial Solutions acquires from third parties in the course of its financial services, and some of which it resells to financial intermediaries on an ongoing basis. This business can be changed at any time during the year. As part of the contractual agreements on the sale of receivables, substantially neither all the rewards nor all risks that are associated with the receivables were transferred or retained. This relates in particular to possible defaults and late payments of receivables sold, so that a receivable was accounted for in the amount of the continuing involvement of €46 million (previous year: €49 million). The carrying amount of the associated liability is €52 million (previous year: €56 million). The underlying volume of receivables sold amounts to €340 million as of the end of the reporting period (previous year: €346 million).

Risk Management of Financial Instruments

Financial Risk Management

The Bertelsmann Group is exposed to various forms of financial risk through its international business operations. Above all, this includes the effects of changes in foreign exchange rates and interest rates. Bertelsmann's risk management activities are designed to effectively mitigate these risks. The Executive Board establishes basic risk management policy, outlining general procedures for hedging currency and interest rate risk and the utilization of derivative financial instruments. The Central Financial Department advises subsidiaries on operating risk and hedges risks using derivative financial instruments as necessary. However, subsidiaries are not obliged to use the services provided by this department for their operating risks. Some subsidiaries, such as RTL Group in particular, have their own finance departments. They report their hedge transactions to the Central Financial Department each quarter. Further information on financial market risks and financial risk management is presented in the Combined Management Report.

Currency Risk

Bertelsmann is exposed to exchange rate risk in various foreign currencies. Its subsidiaries are advised, but not obliged, to hedge themselves against foreign currency risks in the local reporting currency by signing forward agreements with banks that have a high credit rating. Loans within the Bertelsmann Group that are subject to currency risk are hedged using derivatives. If foreign currency transactions designated as hedged items adequately meet effectiveness requirements, hedge accounting as defined by IFRS 9 is applied under the cash flow hedge model. A number of subsidiaries are based outside the eurozone. The resulting translation risk is managed through the relationship of economic financial debt to operating EBITDA of key currency areas. Over the long term, the Group aims to achieve a reasonable relationship between financial debt and results of operations for each currency area. Bertelsmann's focus is on the maximum leverage factor permitted for the Group.

Interest Rate Risk

There are interest rate risks for interest-bearing assets and financial debt. Interest rate risk in the Bertelsmann Group is analyzed centrally and managed on the basis of the Group's planned net financial debt. A key factor in this management is the Group's interest result over time and its sensitivity to interest rate changes. The Group aims for a balanced relationship between floating rates and long-term fixed interest rates, depending on the absolute amount, forecast performance of the interest-bearing liability and interest level. This is implemented using underlying and derivative financial instruments for control.

Liquidity Risk

Liquidity risks may arise through a lack of rollover financing (liquidity risk in a narrow sense), delayed receipt of payment and unforeseen expenditure (budgeting risk). Budgeting risk is determined by comparing deviations in actual spending with budget and reserve amounts. In a narrow sense, liquidity risk depends on the volume of debt due within a given period. Liquidity risk is monitored on an ongoing basis with reference to the budget for current and future years. New and unplanned transactions (e.g., acquisitions) are continuously tracked. The maturity profile of financial assets and liabilities is also reconciled on a regular basis. Budget risks are managed through effective cash management and constant monitoring of projected versus actual cash flows. Debt maturities are also diversified to ensure that rising financing costs do not have a short-term impact. Credit facilities with banks are also maintained for unplanned expenditures.

Counterparty Risk

The Bertelsmann Group is exposed to default risks in the amount of the invested cash and cash equivalents and the positive fair value of the derivatives in its portfolio. Transactions involving money market securities and other financial instruments are exclusively conducted with a defined group of banks with a high credit rating ("core banks"). The credit ratings of core banks are constantly monitored and classified on the basis of quantitative and qualitative criteria (rating, CDS spreads, stock price, etc.). Counterparty limits determined on the basis of credit ratings refer to cash holdings and positive fair values of the derivatives in its portfolio. The draw-down of limits is monitored on a regular basis. Funds are invested in very short-term portfolios in some cases to preserve flexibility in the event of credit rating changes. In addition, some tri-party transactions with banks have been concluded to reduce default risks. These tri-party transactions are collateralized investments, and the banks provide predefined securities as collateral. As in the previous year, at the end of the reporting period no tri-party transactions were outstanding and no collateral had been provided. Processing these transactions, and managing and valuing the collateral, are performed by a clearing agent. Default risks arising from trade receivables are partially mitigated through credit insurance coverage. The Bertelsmann Group has obtained credit collateralization in the amount of €713 million for these receivables (previous year: €665 million).

Capital Management

The financing guidelines adopted by the Bertelsmann Group are designed to ensure a balance between financing security, return on equity and growth. The Group's indebtedness is based specifically on the requirements for a credit rating of "Baa1/BBB+." Financial management at Bertelsmann is conducted using quantified financing objectives that are a central factor in ensuring the Group's independence and capacity to act. These objectives, as elements of the planning process and regular monitoring, are broadly defined performance indicators. The key performance indicator for limiting economic debt within the Bertelsmann Group is a maximum leverage factor of 2.5. On December 31, 2018, the leverage factor was 2.7 (previous year: 2.5). In addition, the coverage ratio is to remain above four. The coverage ratio amounted to 11.1 on December 31, 2018 (previous year: 11.2). The equity ratio is not to fall below 25 percent of total assets. Management of the equity ratio is based on the definition of equity in IFRS. Although minority interests in partnerships represent equity in financial terms, they are classified as debt for accounting purposes. In the financial year 2018, the equity ratio was 38.8 percent (previous year: 38.5 percent), meeting the internal financial target set by the Group.

Interest Rate and Currency Sensitivity

For the analysis of interest rate risk, a distinction is made between cash flow and present value risks. Financial debt, cash and cash equivalents and interest rate derivatives with variable interest terms are subject to a greater degree of cash flow risk, as changes in market interest rates impact the Group's interest result almost immediately. In contrast, medium- and long-term interest rate agreements are subject to a greater degree of present value risk. The accounting treatment of present value risks depends on the respective financial instrument or a hedging relationship documented in conjunction with a derivative (micro-hedge). Upon initial recognition, originated financial debt is measured at fair value less transaction costs. Subsequent measurement is based on amortized cost. Changes in fair value are limited to opportunity effects, as changes in interest rates have no effect on the balance sheet or the income statement. The recognition of originated financial debt at fair value is only permitted for transactions for which a micro-hedge is documented in accordance with IFRS 9 in conjunction with the conclusion of an interest rate or exchange rate hedge transaction involving derivatives. In this case, changes in the fair value of the respective items are recognized in the income statement in order to substantially balance out the offsetting effects of the fair value measurement of the related derivatives. For derivative financial instruments, the effects of changes in interest rates are recognized in the income statement. In the case of documented hedging relationships (cash flow hedges), however, these effects are taken directly to equity.

The cash flow or present value risks existing at the end of the reporting periods are analyzed using a sensitivity calculation as an after-tax observation. A parallel shift in the interest rate curve of plus or minus 1 percent is assumed for all significant currencies. The analysis is performed on the basis of financial debt, cash and cash equivalents, and derivatives at the end of the reporting period. The results are shown in the following table:

Sensitivity Analysis of Cash Flow and Present Value Risks

	12/31/2018		12/31/2017	
in € millions	Shift +1%	Shift (1)%	Shift +1%	Shift (1)%
Cash flow risks (income statement)	10	(10)	10	(10)
Present value risks (income statement)	17	(17)	16	(16)
Present value risks (equity)	–	–	–	–

The analysis of foreign currency sensitivity includes the Group's financial debt and operating transactions at the end of the reporting period and the hedging relationships entered into. The calculation is performed for the unsecured net exposure on the basis of an assumed 10 percent appreciation of the euro versus all foreign currencies and is presented after tax. A uniform devaluation of foreign currencies would have resulted in a change in the carrying amount recognized in profit or loss of €-2 million (previous year: €-9 million). Thereof, €-1 million (previous year: €-5 million) relates to fluctuations in the US dollar exchange rate, with a net exposure of US$19 million (previous year: US$86 million). Shareholders' equity would have changed by €-34 million (previous year: €46 million) as a result of fluctuations in the fair values of documented cash flow hedges. Thereof, €-37 million (previous year: €46 million) relates to fluctuations in the US dollar exchange rate on the basis of a documented cash flow hedge volume of US$605 million (previous year: US$805 million). If there had been a uniform increase in the value of foreign currencies, this would have led to opposite changes in these amounts for the Bertelsmann Group.

Financial Derivatives

Bertelsmann uses standard market financial derivatives, primarily unlisted (OTC) instruments. These include, in particular, forward agreements, currency swaps, currency options, interest rate swaps and individual commodities forwards. Transactions are entered into solely with banks with a high credit rating. As a rule, the Central Financial Department's transactions are only performed with a group of banks approved by the Executive Board. The nominal volume is the total of all underlying buying and selling amounts of the respective transactions.

The majority of the financial derivatives at the end of the reporting period (nominal volume of €5,233 million) are used to hedge currency rate risks from intercompany financing activities. These financial derivatives account for a total of €3,390 million (65 percent) as of the end of the reporting period. A total of €1,363 million (26 percent) is due to financial derivatives used to hedge currency rate risks from operating activities as of the end of the reporting period. Financial derivatives are also used to hedge against interest rate risks from interest-bearing receivables and liabilities. Financial derivatives are used exclusively for hedging purposes.

All relationships between hedging instruments and hedged items are documented, in addition to risk management objectives and strategies in connection with the various hedges. This method includes linking all derivatives used for hedging purposes to the underlying assets, liabilities, firm commitments and forecasted transactions. Furthermore, the Bertelsmann Group assesses and documents the degree to which changes in the fair values or cash flows of hedged items are effectively offset by changes in the corresponding derivatives used as hedging instruments, both when the hedges are initiated and on an ongoing basis.

Nominal Volume and Fair Values of Financial Derivatives

in € millions	12/31/2018 Nominal volume < 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	2,682	1,411	660	4,753	8
Interest rate derivatives					
Interest rate swaps	–	480	–	480	3
Other derivative financial instruments	–	–	–	–	–
	2,682	1,891	660	5,233	11

in € millions	12/31/2017 Nominal volume < 1 year	1 to 5 years	> 5 years	Total	Fair values
Currency derivatives					
Forward contracts and currency swaps	2,652	1,435	203	4,290	44
Interest rate derivatives					
Interest rate swaps	–	250	–	250	–
Other derivative financial instruments	–	–	–	–	–
	2,652	1,685	203	4,540	44

The option offered in IFRS 13.48 (net risk position) is used for measuring the fair value of financial derivatives. To identify the credit exposure from financial derivatives, the respective net position of the fair values with the contractual partners is used as a basis, as these values are managed based on a net position in view of their market or credit default risks. Currency forwards are used to hedge the foreign currency risk relating to the purchase and sale of program rights and output deals for the TV business. Bertelsmann hedges between 80 percent and 100 percent of the short-term (within one year) future cash flows, and between 10 percent and 80 percent of the longer-term (two to five years) future cash flows. The derivatives used for this purpose are recognized as hedging instruments in connection with cash flow hedges. The effective portion of changes in the fair value of cash flow hedges is recognized in other comprehensive income until the effects of the hedged underlying transaction affect profit or loss, or until a basis adjustment occurs. The amount of €3 million relating to cash flow hedges (previous year: €-39 million) was reclassified from other comprehensive income to the income statement. These are amounts before tax. The portion remaining in other comprehensive income as of December 31, 2018, will thus mainly impact the income statement in the coming years. As in the previous year, no ineffective portion of the cash flow hedges existed. The effects of non-designated components of a cash flow hedge (e.g., the forward component of a foreign currency derivative with a designation on a spot basis) in the amount of €10 million (previous year: €13 million) were recognized immediately in profit or loss.

The following table provides an overview of the carrying amounts of the derivative financial instruments, which correspond to their fair values. A distinction is made between derivatives that are included in an effective hedging relationship in accordance with IFRS 9 and those that are not.

Derivative Financial Instruments

in € millions	Carrying amount as of 12/31/2018	Carrying amount as of 12/31/2017
Assets		
Forward contracts and currency swaps		
– without hedge relation	48	87
– in connection with cash flow hedges	16	4
Interest rate swaps		
– without hedge relation	3	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–
Equity and liabilities		
Forward contracts and currency swaps		
– without hedge relation	52	24
– in connection with cash flow hedges	4	23
Interest rate swaps		
– without hedge relation	–	–
– in connection with cash flow hedges	–	–
Other derivative financial instruments without hedge relation	–	–

The following table presents the remaining terms of the contractual amounts to be exchanged in a derivative financial instrument for which gross cash flows are exchanged:

Liabilities from Derivatives with Gross Settlement

	Remaining term of liabilities		
in € millions	Up to 1 year	1 to 5 years	Over 5 years
Cash outflow	(1,644)	(967)	(660)
Cash inflow	1,617	889	554
Balance as of 12/31/2018	(27)	(78)	(106)
Cash outflow	(1,810)	(406)	(32)
Cash inflow	1,776	393	31
Balance as of 12/31/2017	(34)	(13)	(1)

25 Cash Flow Statement

The Bertelsmann consolidated cash flow statement has been prepared in accordance with IAS 7 and is used to evaluate the Group's ability to generate cash and cash equivalents. Cash flows are divided into those relating to operating activities, investing activities and financing activities. Cash flows from operating activities are presented using the indirect method, whereby EBIT is adjusted for the effects of a non-cash nature, any deferrals or accruals of past or future operating receipts or payments, and items of income or expenses associated with investing cash flows. In addition, cash flows arising from income taxes are classified as cash flows from operating activities as well as other cash flows that are neither investing nor financing.

The management of Group operations of the Bertelsmann Group utilizes indicators that include operating EBITDA and is thus before interest and taxes, as well as depreciation, amortization, and impairment and special items. Operating results and the resulting cash flow from operating activities should therefore be consistent and comparable. Accordingly, the net balances of interest paid and interest received during the financial year are shown in the cash flow statement as part of financing activities.

The change in provisions for pensions and similar obligations represents the balance of personnel costs for pensions and similar obligations and company payments for these obligations (further explanations are presented in note 18 "Provisions for Pensions and Similar Obligations"). From the financial year 2018 onward, contributions to pension plans are also included in this item. The change in presentation increases comparability with international companies. The figures from the previous year have been adjusted accordingly. In the financial year 2018, these contributions to pension plans amounted to €41 million (previous year: €37 million). Other effects include the adjustments of results from investments accounted for using the equity method, taking into account dividends received from these investments, and adjustments in connection with non-cash income and expenses.

The consolidated cash flow statement includes the effects of changes in foreign currencies and changes in the scope of consolidation. Items in the consolidated cash flow statement thus cannot be reconciled with changes in items reported on the consolidated balance sheet. Investing activities include payments for investments in non-current assets and purchase price payments for acquisitions as well as proceeds from the disposal of non-current assets and investments. Further explanations concerning acquisitions made during the financial year are presented in the section "Acquisitions and Disposals." Disposals during the financial year are also presented separately in that section. Financial debt of €192 million (previous year: €14 million) was assumed during the reporting period.

Cash flow from financing activities includes changes in equity, financial debt and dividend payments affecting cash, as well as interest paid and interest received. The item "Proceeds from/redemption of other financial debt" includes receipts in the amount of €241 million (previous year: €476 million) and payments in the amount of €-391 million (previous year: €-194 million). The payments include the redemption of financial debt in the amount of €-165 million in connection with the acquisition of the interest in OnCourse Learning. The other receipts and payments mainly relate to short-term loans at short maturities and correspondingly high turnover rates. In addition, the item also includes other changes affecting cash in the amount of €19 million in connection with hedge transactions. The item "Change in equity" amounts to €-59 million and mainly comprises €-29 million from the exercise of the put option for the interest in Relias Learning. A further €-18 million relates to the acquisition of treasury shares by Groupe M6. In the previous year, the item "Change in equity" amounted to €657 million, of which €505 million related mainly to purchase price payments in connection with the shareholding increase in Penguin Random House and €128 million related to purchase price payments including a contribution to SpotX. The item "Dividends to non-controlling interests and payments to partners in partnerships (IAS 32.18(b))" mainly resulted in the previous year from the special dividend distribution of €373 million to the co-shareholder of the publishing group Penguin Random House.

The following table shows the cash changes and non-cash changes of financial debt.

Changes in Financial Debt

in € millions	12/31/2017	Cash changes	Non-cash changes: Acquisitions through business combinations	Non-cash changes: Exchange rate effects	Non-cash changes: Other changes	12/31/2018
Bonds	3,725	742	–	–	5	4,472
Promissory notes	659	(200)	–	–	–	459
Liabilities to banks	324	(87)	1	18	–	256
Finance lease liabilities	47	(9)	–	–	1	39
Other financial debt	164	(240)	191	1	(5)	111
Total financial debt	4,919	206	192	19	1	5,337

26 Segment Reporting

IFRS 8 Operating Segments requires that external segment reporting must be based on the internal organizational and management structure, and on management and reporting indicators used internally. The Bertelsmann Group comprises eight operating reportable segments (RTL Group, Penguin Random House, Gruner + Jahr, BMG, Arvato, Bertelsmann Printing Group, Bertelsmann Education Group and Bertelsmann Investments), differentiated according to the type of products and services offered and which are reported by segment managers to the Executive Board of Bertelsmann Management SE in its role as the chief operating decision maker in accordance with IFRS 8. Corporate is mainly responsible for activities in the areas of accounting and reporting, taxes, legal, human resources, information technology, internal auditing, corporate communications and management, internal control and strategic development of the Group, securing the required financing, risk management and optimization of the Group's investment portfolio.

Intersegment eliminations are carried in the column "Consolidation."

As in the past, specific segment information is defined according to the definitions on which Group management is based. As a rule, accounting and measurement in the segment reporting uses the same IFRS principles as in the Consolidated Financial Statements. Invested capital is calculated on the basis of the Group's operating assets less non-interest-bearing operating liabilities. In addition, 66 percent of the net present value of the operating leases is considered in the calculation of invested capital. Intercompany revenues are recognized using the same arm's-length conditions applied to transactions with third parties.

Operating EBITDA serves as a key performance indicator for a sustainable determination of the operating result. Assessment of the operating segments' performance is also based on this performance indicator. Operating EBITDA represents the operating earnings generated by the respective segment management before interest and income taxes, as well as depreciation, amortization and impairment, and it is adjusted for special items. Elimination of these special items allows the determination of a normalized performance indicator, thus simplifying forecasting and comparability. Segment depreciation, amortization and impairment include the depreciation of property, plant and equipment, and the amortization of intangible assets as set out in notes 9 "Intangible Assets" and 10 "Property, Plant and Equipment." The business development of Bertelsmann Investments is determined primarily on the basis of EBIT.

Each segment shows the investments accounted for using the equity method and their results, provided these companies can be clearly allocated to the segment concerned. Results from investments accounted for using the equity method are shown before impairment. In addition to the segment breakdown, revenues are broken down by customer location and revenue source. Non-current assets are also stated according to the location of the respective company.

Tabular information on the segment information is presented on page 50 ff.

The following table shows the reconciliation of segment information to the Consolidated Financial Statements:

Reconciliation of Segment Information to the Consolidated Financial Statements

in € millions	2018	2017
Operating EBITDA from continuing operations	2,586	2,636
Amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment	847	691
Adjustments on amortization/depreciation, impairment and reversals on intangible assets and property, plant and equipment included in special items	(177)	(34)
Special items	296	83
EBIT from continuing operations	1,620	1,896
Financial result	(216)	(219)
Earnings before taxes from continuing operations	1,404	1,677
Income tax expense	(301)	(472)
Earnings after taxes from continuing operations	1,103	1,205
Earnings after taxes from discontinued operations	1	(7)
Group profit or loss	1,104	1,198

27 Related Party Disclosures

For the Bertelsmann Group, related parties as defined in IAS 24 are those persons and entities that control or exercise a significant influence over the Bertelsmann Group, and those persons and entities controlled or jointly controlled by the Bertelsmann Group, or over which it exercises a significant influence. Accordingly, certain members of the Mohn family, the members of the Executive Board of Bertelsmann Management SE as the personally liable partner, and the Supervisory Board of Bertelsmann SE & Co. KGaA, including close members of their families and including the companies that are controlled or jointly managed by them, and the joint ventures and associates forming part of the Bertelsmann Group and their subsidiaries are defined as related parties. Furthermore, Bertelsmann Pension Trust e.V. is to be considered a related party (further details on this are presented in note 18 “Provisions for Pensions and Similar Obligations”).

Bertelsmann Verwaltungsgesellschaft mbH (BVG), Gütersloh, a holding company with no operating activities, has control of the Bertelsmann Group. Johannes Mohn GmbH has informed Bertelsmann SE & Co. KGaA that it directly owns more than 50 percent of the shares in Bertelsmann Management SE and of Bertelsmann SE & Co. KGaA. Reinhard Mohn Verwaltungsgesellschaft mbH and Mohn Beteiligungs GmbH still own more than one-quarter of the shares in Bertelsmann Management SE and in Bertelsmann SE & Co. KGaA. Shares held both directly and indirectly are included when identifying shareholdings.

In the legal form of a KGaA, the business is managed by a personally liable partner. In the case of Bertelsmann SE & Co. KGaA, Bertelsmann Management SE, represented by its Executive Board, is responsible for the management of the business. The statutory bodies consist of the Supervisory Board and the General Meeting at the Bertelsmann SE & Co. KGaA level and the Executive Board, Supervisory Board and General Meeting at the Bertelsmann Management SE level. The Supervisory Board of the KGaA is elected by the limited partners at the General Meeting. The members of the Bertelsmann Management SE Supervisory Board are appointed at the General Meeting of Bertelsmann Management SE. BVG controls the voting rights at the Bertelsmann SE & Co. KGaA and Bertelsmann Management SE General Meeting.

Remuneration for key management personnel includes:

Remuneration for Key Management Personnel

in € millions	2018	2017
Short-term employee and termination benefits	26	30
Post-employment benefits	4	2
Other long-term benefits	13	8

The remuneration shown also includes remuneration for activities by the members of the Supervisory Board of Bertelsmann SE & Co. KGaA on the Supervisory Board of Bertelsmann Management SE. Transactions with subsidiaries included in the scope of consolidation are eliminated and are not further disclosed. In addition to transactions with consolidated subsidiaries, the following transactions with related parties and entities were conducted in the reporting period:

Transactions with Related Parties

in € millions	Parent and entities with significant influence	Key members of management	Joint ventures	Associates	Other related parties
2018					
Goods delivered and services provided	–	1	64	29	–
Goods and services received	–	(2)	(35)	(29)	(2)
Receivables against	–	–	24	40	–
Amounts owed to	–	65	62	14	36
2017					
Goods delivered and services provided	–	–	66	33	–
Goods and services received	–	(2)	(38)	(14)	(1)
Receivables against	–	–	26	39	–
Amounts owed to	–	52	69	22	29

The amounts owed to key members of management include pension obligations, variable remuneration components and long-term incentives. The item "Other related parties" primarily includes transactions with the personally liable partner Bertelsmann Management SE. The obligations as of the end of the reporting period result from expenses passed on by Bertelsmann Management SE.

No guarantees were entered into for associates during the reporting period or in the previous year. In line with the previous year, Bertelsmann has no share in the contingent liabilities of its associates. There are contribution obligations in the amount of €31 million (previous year: €63 million) to a Brazilian fund set up by Bertelsmann along with the investment company Bozano Investimentos and other partners, investing in educational companies, with a particular focus on healthcare. Further contribution obligations exist to University Ventures Funds in an immaterial amount (previous year: €19 million). As in the previous year, no significant expenses were recognized for bad or doubtful debts due from associates in the financial year 2018. Loans amounting to €9 million were granted to associates in the financial year 2018 (previous year: €15 million). As in the previous year, no loans were received from associates. In the financial year 2018, capital contributions were made to associates of €21 million (previous year: €32 million).

Joint ventures have obligations to the Bertelsmann Group from operating leases in the amount of €3 million (previous year: €8 million) and contingent liabilities in the amount of €22 million (previous year: €27 million). As of the end of the reporting period, commitments for RTL Group joint ventures existed in the amount of €10 million (previous year: €21 million). As in the previous year, no expenses were recognized for bad or doubtful debts due from joint ventures in the financial year 2018. Loans amounting to €1 million were granted to joint ventures in the financial year 2018 (previous year: €1 million). Loans were received from joint ventures in the amount of €2 million during the reporting period (previous year: €8 million). As in the previous year, no capital contributions were made to joint ventures.

28 Events after the Reporting Period

In September 2018, Bertelsmann and the Moroccan Saham Group announced the merger of their global Customer Relationship Management (CRM) businesses. The transaction was completed on January 4, 2019. Each partner holds 50 percent of the shares in the new company Majorel, which is one of the market leaders in Europe, Africa and the Middle East, coupled with a strong presence in America and Asia. The merger gives Bertelsmann access to the growth markets of the African continent. Bertelsmann has a majority in the relevant governing bodies and the resulting decision-making authorities over the relevant activities of Majorel and will include it as a subsidiary in the Consolidated Financial Statements for the financial year 2019. Saham's contribution of the CRM businesses will be accounted for in the Bertelsmann Consolidated Financial Statements as a business combination in accordance with IFRS 3. As a result of the early stage of the preliminary purchase price allocation, it is not possible to quantify any adjustments relating to the fair value prior the preparation of Consolidated Financial Statements and to provide any other information required by IFRS 3 on the merger. The CRM businesses contributed by Bertelsmann will continue to be accounted for at their carrying amounts. The reduction in the ownership interest in CRM businesses is accounted for as an equity transaction in accordance with IFRS 10 and can result in a reduction in the low double-digit million range in the equity item "Non-controlling interests." Furthermore, an additional effect can result in the equity attributable to the Bertelsmann shareholders as a difference between the carrying amounts and the fair value of the corresponding shares.

In January 2019, Groupe M6, which belongs to RTL Group, entered into exclusive negotiations with Lagardère Active for the acquisition of Lagardère's television business. The acquisition is subject to consultation with the employee representative bodies of both Lagardère Group's television business and Groupe M6, as well as to approval of the Conseil Supérieur de l'Audiovisuel (French broadcasting authority) and the competition authorities. Approval for the acquisition is expected in the second half of 2019.

29 Exemption for Subsidiaries from Preparation, Audit and Publication of Financial Statements

The following subsidiaries took advantage of the exemption regulations set out in section 264 (3) of the German Commercial Code (HGB) relating to additional requirements for limited liability companies to prepare annual financial statements and a management report, and the requirements for audit of and publication by limited liability companies for the financial year ended December 31, 2018:

Name of the entity	Place
"I 2 I" Musikproduktions- und Musikverlags-gesellschaft mbH	Cologne
3 C Deutschland GmbH	Heilbronn
Ad Alliance GmbH	Cologne
adality GmbH	Munich
Applike GmbH	Hamburg
arvato CRM Healthcare GmbH	Berlin
arvato direct services eiweiler GmbH	Heusweiler-Eiweiler
arvato direct services GmbH	Gütersloh
arvato distribution GmbH	Harsewinkel
arvato eCommerce Beteiligungsgesellschaft mbH	Gütersloh
arvato eCommerce Verwaltungsgesellschaft mbH	Gütersloh
arvato infoscore GmbH	Baden-Baden
arvato Logistics, Corporate Real Estate & Transport GmbH	Gütersloh
arvato media GmbH	Gütersloh
Arvato Payment Solutions GmbH	Verl
arvato SCM Consumer Products GmbH	Gütersloh
Arvato SCM Kamen GmbH	Gütersloh
Arvato SCM Solutions AG	Gütersloh
arvato services Dresden GmbH	Dresden
arvato services Gera GmbH	Gera
arvato services Leipzig GmbH	Leipzig
arvato services solutions GmbH	Gütersloh
arvato services Suhl GmbH	Suhl
arvato systems GmbH	Gütersloh
arvato Systems perdata GmbH	Leipzig
arvato Systems S4M GmbH	Cologne
AVE Gesellschaft für Hörfunkbeteiligungen mbH	Berlin
AZ Direct Beteiligungs GmbH	Gütersloh
AZ Direct GmbH	Gütersloh
BAG Business Information Beteiligungs GmbH	Gütersloh
BAI GmbH	Gütersloh
BDMI GmbH	Gütersloh
BePeople GmbH	Gütersloh
Bertelsmann Accounting Services GmbH	Gütersloh
Bertelsmann Accounting Services Schwerin GmbH	Schwerin
Bertelsmann Aviation GmbH	Gütersloh
Bertelsmann Capital Holding GmbH	Gütersloh
Bertelsmann China Holding GmbH	Gütersloh

Name of the entity	Place
Bertelsmann Transfer GmbH	Gütersloh
Bertelsmann Treuhand- und Anlagegesellschaft mit beschränkter Haftung	Gütersloh
BFS finance GmbH	Verl
BFS finance Münster GmbH	Münster
BFS health finance GmbH	Dortmund
BMG Production Music (Germany) GmbH	Berlin
BMG RIGHTS MANAGEMENT (Europe) GmbH	Berlin
BMG RIGHTS MANAGEMENT GmbH	Berlin
Campaign Services Neckarsulm GmbH	Neckarsulm
Campaign Services Offenbach GmbH	Frankfurt am Main
CBC Cologne Broadcasting Center GmbH	Cologne
Chefkoch GmbH	Bonn
COUNTDOWN MEDIA GmbH	Hamburg
Der Audio Verlag GmbH	Berlin
DeutschlandCard GmbH	Munich
Digital Media Hub GmbH	Cologne
Direct Analytics GmbH	Gütersloh
direct services Gütersloh GmbH	Gütersloh
DPV Deutscher Pressevertrieb GmbH	Hamburg
DPV Worldwide GmbH	Hamburg
Eat the World GmbH	Berlin
Erste TD Gütersloh GmbH	Gütersloh
Erste WV Gütersloh GmbH	Gütersloh
European SCM Services GmbH	Gütersloh
FremantleMedia International Germany GmbH	Potsdam
G+J Digital Products GmbH	Hamburg
G+J Digital Ventures GmbH	Berlin
G+J Electronic Media Sales GmbH	Hamburg
G+J Enterprise GmbH	Hamburg
G+J Innovation GmbH	Hamburg
G+J Lifestyle GmbH	Hamburg
G+J LIVING Digital GmbH	Hamburg
G+J Medien GmbH	Hamburg
G+J Shop GmbH	Munich
G+J Vermietungsgesellschaft Sächsischer Verlag mbH	Dresden
G+J Wirtschaftsmedien Verwaltungs GmbH	Hamburg
G+J Zweite Grundstücksbeteiligungsgesellschaft München mbH	Munich
GGP Media GmbH	Pößneck

Name of the entity	Place
Global Assekuranz Vermittlungsgesellschaft mit beschränkter Haftung	Gütersloh
Gruner + Jahr Communication GmbH	Hamburg
Gruner + Jahr GmbH	Hamburg
Henri-Nannen-Schule Hamburger Journalisten-schule Gruner + Jahr - DIE ZEIT GmbH	Hamburg
infoNetwork GmbH	Cologne
informa HIS GmbH	Wiesbaden
informa Solutions GmbH	Baden-Baden
infoscore Business Support GmbH	Baden-Baden
infoscore Consumer Data GmbH	Baden-Baden
infoscore Finance GmbH	Baden-Baden
infoscore Forderungsmanagement GmbH	Verl
infoscore Portfolio Management International GmbH	Gütersloh
infoscore Tracking Solutions GmbH	Gütersloh
inmediaONE] GmbH	Gütersloh
IP Deutschland GmbH	Cologne
IP Internationale Presse direct GmbH	Mörfelden-Walldorf
Ligatus GmbH	Cologne
mbs Nürnberg GmbH	Nuremberg
MEDIASCORE Gesellschaft für Medien- und Kommunikationsforschung mbH	Cologne
Mediengruppe RTL Deutschland GmbH	Cologne
Mohn Media Energy GmbH	Gütersloh
Mohn Media Mohndruck GmbH	Gütersloh
MSP Medien-Service und Promotion GmbH	Hamburg
NETLETIX GmbH	Munich
Next Level Integration GmbH	Cologne
NORDDEICH TV Produktionsgesellschaft mbH	Hürth
Prinovis Ahrensburg Weiterverarbeitung und Logistik GmbH	Hamburg
Prinovis GmbH	Gütersloh
Prinovis Klebebindung GmbH	Nuremberg
PRINOVIS Service GmbH	Hamburg
Print Service Gütersloh GmbH	Gütersloh
Probind Mohn media Binding GmbH	Gütersloh
PSC Print Service Center GmbH	Oppurg
Random House Audio GmbH	Cologne
Reinhard Mohn GmbH	Gütersloh
Relias Learning GmbH	Berlin
rewards arvato services GmbH	Munich
RM Buch und Medien Vertrieb GmbH	Gütersloh
RTL Group Central & Eastern Europe GmbH	Cologne
RTL Group Deutschland GmbH	Cologne
RTL Group Deutschland Markenverwaltungs GmbH	Cologne

Name of the entity	Place
RTL Group Financial Services GmbH	Potsdam
RTL Group Licensing Asia GmbH	Cologne
RTL Hessen GmbH	Frankfurt am Main
RTL interactive GmbH	Cologne
RTL Journalistenschule GmbH	Cologne
RTL Nord GmbH	Hamburg
RTL Radio Berlin GmbH	Berlin
RTL Radio Center Berlin GmbH	Berlin
RTL Radio Deutschland GmbH	Berlin
RTL Radio Luxemburg GmbH	Cologne
RTL Radiovermarktung GmbH	Berlin
RTL West GmbH	Cologne
rtv media group GmbH	Nuremberg
Smart Shopping and Saving GmbH	Berlin
smartclip GmbH	Düsseldorf
Sonopress GmbH	Gütersloh
Sparwelt GmbH	Berlin
SpotX Deutschland GmbH	Cologne
SSB Software Service und Beratung GmbH	Munich
stern Medien GmbH	Hamburg
stern.de GmbH	Hamburg
TERRITORY Content to Results GmbH	Hamburg
TERRITORY CTR GmbH	Gütersloh
TERRITORY EMBRACE GmbH	Bochum
TERRITORY MEDIA GmbH	Munich
TERRITORY webguerillas GmbH	Munich
TERRITORY webguerillas Nord GmbH	Berlin
trnd DACH GmbH	Munich
trnd International GmbH	Munich
trndnxt GmbH	Munich
trndsphere blue GmbH	Munich
UFA Distribution GmbH	Potsdam
UFA Fiction GmbH	Potsdam
UFA Film und Fernseh GmbH	Cologne
UFA GmbH	Potsdam
Ufa Radio-Programmgesellschaft in Bayern mbH	Ismaning
UFA Serial Drama GmbH	Potsdam
UFA Show & Factual GmbH	Cologne
Universum Film GmbH	Munich
Verlag RM GmbH	Gütersloh
Verlagsgruppe Random House GmbH	Gütersloh
Verlegerdienst München GmbH	Gilching
VIVENO Group GmbH	Gütersloh
Vogel Druck und Medienservice GmbH	Höchberg
VOX Holding GmbH	Cologne
VSG Schwerin - Verlagsservicegesellschaft mbH	Schwerin
webmiles GmbH	Munich

In addition, the exemption regulations set out in section 264b of the German Commercial Code (HGB) were used by the following companies for the financial year ended December 31, 2018:

Name of the entity	Place
"Alwa" Gesellschaft für Vermögensverwaltung mbH & Co. Grundstücksvermietung KG	Schönefeld
11 Freunde Verlag GmbH & Co. KG	Berlin
AVE II Vermögensverwaltungsgesellschaft mbH & Co. KG	Cologne
AZ fundraising services GmbH & Co. KG	Gütersloh
Berliner Presse Vertrieb GmbH & Co. KG	Berlin
DDV Mediengruppe GmbH & Co. KG	Dresden
Deutsche Medien-Manufaktur GmbH & Co. KG	Münster

Name of the entity	Place
G+J Food & Living GmbH & Co. KG	Hamburg
G+J Immobilien GmbH & Co. KG	Hamburg
infoscore Portfolio Management GmbH & Co. KG	Verl
infoscore Portfolio Management II GmbH & Co. KG	Baden-Baden
LV-Publikumsmedien GmbH & Co. KG	Münster
Motor Presse Stuttgart GmbH & Co. KG	Stuttgart
Prinovis GmbH & Co. KG	Hamburg
Sellwell GmbH & Co. KG	Hamburg

The consolidated subsidiary Arvato SCM Ireland Limited in Balbriggan, Ireland, has used the option offered in section 357 of the “Republic of Ireland Companies Act 2014” for publication requirements for its annual financial statements.

30 Additional Information in accordance with Section 315e of the German Commercial Code (HGB)

Compensation of the Supervisory Board of Bertelsmann SE & Co. KGaA for the financial year 2018 amounted to €1,881,667 plus statutory value-added tax. Members of the Executive Board received total remuneration in the reporting period of €32,657,296, including €16,721,604 from Bertelsmann Management SE. Former members of the Executive Board of Bertelsmann Management SE and Bertelsmann AG and their surviving dependents received compensation of €9,667,046, including €5,664,329 from Bertelsmann SE & Co. KGaA. The provision for pension obligations to former members of the Executive Board of Bertelsmann AG and Bertelsmann Management SE accrued at Bertelsmann SE & Co. KGaA and Bertelsmann Management SE amounts to €77,079,005. The members of the Executive Board and Supervisory Board are listed on pages 148 ff.

The fees for the Group auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft totaled €10 million during the financial year, of which €6 million was due to fees for the audit of the financial statements and a further €1 million for other audit-related services. PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft was paid less than €1 million for tax consulting services. Further services in excess of this amount amounted to €3 million. The audit fees primarily include fees for the auditors’ review of the interim consolidated financial statements and the consolidated financial statements and the audit of the separate financial statements of Bertelsmann SE & Co. KGaA and its subsidiaries. The audit-related fees mainly cover statutory or voluntarily mandated attestation services by the auditor. Fees for other services cover fees for project-related consulting and due diligence services.

The following table shows the number of employees as of December 31, 2018, and on an annual average:

Number of Employees

	Number of employees (closing date)	Number of employees (average)
RTL Group	15,975	14,154
Penguin Random House	10,351	10,301
Gruner + Jahr	10,079	10,336
BMG	834	805
Arvato	67,464	71,109
Bertelsmann Printing Group	8,245	8,309
Bertelsmann Education Group	2,033	1,879
Bertelsmann Investments	306	246
Corporate	1,933	1,965
Total	117,220	119,103

31 Proposal for the Appropriation of Net Retained Profits

The personally liable partner Bertelsmann Management SE and the Supervisory Board of Bertelsmann SE & Co. KGaA will propose to the General Meeting that the remaining net retained profits of Bertelsmann SE & Co. KGaA of €641 million be appropriated as follows:

Net Retained Profits for Bertelsmann SE & Co. KGaA

in € millions	
Retained earnings	641
Dividends to shareholders	(180)
Carry forward to new financial year	461

The dividend per ordinary share thus totals €2,149.

The personally liable partner Bertelsmann Management SE approved the Consolidated Financial Statements for submission to the Supervisory Board of Bertelsmann SE & Co. KGaA on March 14, 2019. The Supervisory Board's task is to review the Consolidated Financial Statements and declare whether it approves these.

Gütersloh, March 14, 2019

Bertelsmann SE & Co. KGaA
Represented by:
Bertelsmann Management SE, the personally liable partner
The Executive Board

Thomas Rabe	Markus Dohle
Immanuel Hermreck	Bernd Hirsch

Responsibility Statement

To the best of our knowledge, and in accordance with the applicable reporting principles, the Consolidated Financial Statements give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group, and the Combined Management Report includes a fair review of the development and performance of the business and the position of the Bertelsmann Group and Bertelsmann SE & Co. KGaA, together with a description of the material opportunities and risks associated with the expected development of the Bertelsmann Group and Bertelsmann SE & Co. KGaA.

Gütersloh, March 14, 2019

Bertelsmann SE & Co. KGaA
Represented by:
Bertelsmann Management SE, the personally liable partner
The Executive Board

Thomas Rabe	Markus Dohle
Immanuel Hermreck	Bernd Hirsch

Independent Auditor's Report

To Bertelsmann SE & Co. KGaA, Gütersloh

Report on the Audit of the Consolidated Financial Statements and of the Group Management Report

Audit Opinions

We have audited the consolidated financial statements of Bertelsmann SE & Co. KGaA, Gütersloh, and its subsidiaries (the Group), which comprise the balance sheet as at December 31, 2018, the statement of profit and loss, consolidated statement of comprehensive income, consolidated statement of cash flows and consolidated statement of changes in equity for the financial year from January 1 to December 31, 2018, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of Bertelsmann SE & Co. KGaA, which is combined with the Company's management report, including the non-financial report pursuant to § [Article] 289b Abs. [paragraph] 1 HGB [Handelsgesetzbuch: German Commercial Code] and § 315b Abs. 1 HGB, for the financial year from January 1 to December 31, 2018.

In our opinion, on the basis of the knowledge obtained in the audit

- the accompanying consolidated financial statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at December 31, 2018, and of its financial performance for the financial year from January 1 to December 31, 2018, and
- the accompanying group management report as a whole provides an appropriate view of the Group's position. In all material respects, this group management report is consistent with the consolidated financial statements, complies with German legal requirements and appropriately presents the opportunities and risks of future development.

Pursuant to § 322 Abs. 3 Satz [sentence] 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of the group management report.

Basis for the Audit Opinions

We conducted our audit of the consolidated financial statements and of the group management report in accordance with § 317 HGB and the EU Audit Regulation (No. 537/2014, referred to subsequently as "EU Audit Regulation") in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Article 10 (2) point (f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Article 5 (1) of the EU Audit Regulation. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions on the consolidated financial statements and on the group management report.

Key Audit Matters in the Audit of the Consolidated Financial Statements

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the financial year from January 1 to December 31, 2018. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our audit opinion thereon; we do not provide a separate audit opinion on these matters.

In our view, the matters of most significance in our audit were as follows:

1. Recoverability of goodwill
2. Recoverability of investments in associates
3. Pension provisions
4. Acquisition of OnCourse Learning

Our presentation of these key audit matters has been structured in each case as follows:

① Matter and issue
② Audit approach and findings
③ Reference to further information

Hereinafter we present the key audit matters:

❶ Recoverability of goodwill

① Goodwill amounting in total to EUR 8.4 billion (33.2% of consolidated total assets and 85.3% of consolidated equity) is reported in the Company's consolidated financial statements. Goodwill is tested for impairment by the Company once a year on December 31 of the respective financial year or when there are indications of impairment to determine any possible need for write-downs. Impairment testing is carried out at the level of the cash-generating units to which the relevant goodwill is allocated. The carrying amount of the relevant goodwill is compared with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is initially determined on the basis of fair value less costs of disposal. If this amount is higher than the carrying amount, a calculation of the value in use is no longer required. Since there are normally no available prices from active markets (exception: quoted price of the RTL Group and Groupe M6) or comparable transactions from the recent past for the cash-generating units, their fair value less costs of disposal, as well as value in use, is generally determined using discounted cash flow models (DCF).

For this purpose, the adopted business plan of the Group forms the starting point for in general five detailed planning periods which are extrapolated based on assumptions about long-term rates of growth. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account.

The discount rate used is the weighted average cost of capital ("WACC") for the respective group of cash-generating units.

The impairment test determined that, even after taking into account the fair value less costs of disposal, it was necessary to recognize write-downs amounting to a total of EUR 173 million with respect to the group of cash-generating units "StyleHaul," "Gruner + Jahr Zeitschriften und Digitalgeschäft International" and "Education Services."

The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective group of cash-generating units, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the business plan of the Group, adopted by the Board of Directors and approved by the Supervisory Board, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In addition, we assessed the appropriate consideration of the costs of Group functions. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the value of the entity calculated in this way, we focused our testing in particular on the parameters used to determine the discount rate applied, evaluated the specific average costs of capital derived, and assessed the calculation model.

In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company and carried out our own sensitivity analyses for those groups of cash-generating units with low headroom (recoverable amount compared with the carrying amount).

We verified that the necessary disclosures were made in the notes to the consolidated financial statements relating to groups of cash-generating units for which a reasonably possible change in an assumption would result in the recoverable amount falling below the carrying amount of the relevant goodwill.

We assessed the recoverability of goodwill of the RTL Group and of Groupe M6 on the basis of the stock exchange quotation as of the balance sheet date.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and fall within the ranges considered to be reasonable.

③ The Company's disclosures on goodwill are contained in section 9 of the notes to the consolidated financial statements.

❷ Recoverability of investments in associates

① The investments accounted for using the equity method reported in the Company's consolidated financial statements include investments in associates of EUR 0.6 billion.

A two-step impairment test is performed for investments in associates. The first step involves recognizing the investor's share in the impairment losses for the assets of the associate. If there are indications that the carrying amount of the investment in the associate may be impaired, the investment as a whole is tested for impairment in a second step and, if necessary, an additional impairment loss is recognized. This involves comparing the carrying amount of the relevant investment in an associate with the corresponding recoverable amount in the context of the impairment test. The recoverable amount is initially determined on the basis of fair value less costs of disposal. If this amount is higher than the carrying amount, a calculation of the value in use is no longer required. Since, with the exception of Atresmedia, there are no available prices from active markets or comparable transactions from the recent past for the investments in associates, their fair value less costs of disposal, as well as value in use, is generally determined using discounted cash flow models (DCF).

For this purpose, the associate's business plan forms the starting point. Depending on the company, the detailed planning periods are between 5 and 10 years. Expectations relating to future market developments and assumptions about the development of macroeconomic factors are also taken into account in the associate's business plans. The discount rate used is the weighted average cost of capital ("WACC").

The fair value of the investment in Atresmedia, which is material from the Group's point of view, is derived from the value in use.

The impairment test determined that, even after taking into account the fair value less costs of disposal, it was necessary to recognize write-downs amounting to a total of EUR 2 million with respect to the associate Elephorm. The outcome of this valuation exercise is dependent to a large extent on the estimates made by the executive directors with respect to the future cash inflows from the respective associates, the discount rate used, the rate of growth and other assumptions, and is therefore subject to considerable uncertainty. Against this background and due to the complex nature of the valuation, this matter was of particular significance in the context of our audit.

② As part of our audit, we assessed the methodology used for the purposes of performing the impairment test, among other things. After matching the future cash inflows used for the calculation against the business plan for the associate, we assessed the appropriateness of the calculation, in particular by reconciling it with general and sector-specific market expectations. In the knowledge that even relatively small changes in the discount rate applied can have a material impact on the recoverable amount calculated in this way, we also focused our testing in particular on the parameters used to determine the discount rate applied, and assessed the calculation model.

In order to reflect the uncertainty inherent in the projections, we evaluated the sensitivity analyses performed by the Company and carried out our own sensitivity analyses with respect to those investments in associates with low headroom (recoverable amount compared with the carrying amount). Taking into account the information available, we determined that the respective carrying amounts of the investments were adequately covered by the discounted future cash flows.

We assessed the fair value measurement of the investment in Atresmedia on the basis of the value in use and determined that the carrying amount of the investment is adequately covered.

Overall, the valuation parameters and assumptions used by the executive directors are in line with our expectations and fall within the ranges considered to be reasonable.

③ The Company's disclosures relating to the recognized investments in associates are contained in section 11 of the notes to the consolidated financial statements.

❸ Pension provisions

① In the consolidated financial statements of the Company a total of EUR 1.7 billion is reported under the "Provisions for pensions and similar obligations" balance sheet item. The pension provisions comprise obligations from defined benefit pension plans amounting to EUR 4.1 billion, plan assets of EUR 2.5 billion and other obligations similar to pensions of EUR 0.1 billion. The majority of these provisions amounting to EUR 3.2 billion relates to old-age pension commitments in Germany. The other obligations relate primarily to the United Kingdom and the USA, including a small amount of obligations from medical care plans in the USA. Obligations under defined benefit plans are measured using the projected unit credit method. This requires assumptions to be made in particular about future increases in salaries and pensions, average life expectancy (biometrics), and staff turnover. Furthermore, as of each balance sheet date the discount rate must be determined by reference to market yields on high-quality corporate bonds with matching currencies and terms which are consistent with the expected maturities of the obligations. The plan assets are measured at fair value, which in turn involves making estimates that are subject to estimation uncertainties. A large portion of the plan assets is managed by Bertelsmann Pension Trust e.V. as trustee in the context of a Contractual Trust Arrangement ("CTA") for pension commitments of Bertelsmann SE & Co. KGaA and several German subsidiaries.

From our point of view, these matters were of particular significance in the context of our audit because the recognition and measurement of this significant item in terms of its amount are based to a large extent on estimates and assumptions made by the Company's executive directors.

② As part of our audit we evaluated the actuarial expert reports obtained and the professional qualifications of the external experts. We also examined the specific features of the actuarial calculations and assessed the numerical data, the actuarial parameters and the valuation methods on which the valuations were based for compliance with the standard and appropriateness, in addition to other procedures. In addition, we analyzed the development of the obligation and the cost components on the basis of the actuarial expert reports in the light of changes occurring in the valuation parameters and the numerical data, and assessed their plausibility. For the purposes of our audit of the fair value of the plan assets, we obtained relevant bank confirmations for the fund units included in the plan assets. We also compared the fair values of the assets included in the plan assets with their respective market prices on the basis of appropriate sample testing.

Based on our audit procedures, we were able to satisfy ourselves that the estimates and assumptions made by the executive directors are substantiated and sufficiently documented to justify the recognition and measurement of the material pension provisions.

③ The Company's disclosures relating to pension provisions are contained in section 19 of the notes to the consolidated financial statements.

❹ Acquisition of OnCourse Learning

① During the financial year, Bertelsmann SE & Co. KGaA acquired all of the shares in the online education company OnCourse Learning, Inc., Brookfield, Wisconsin, USA, via a subsidiary (share deal). The consideration paid amounted to EUR 280 million. The acquisition was accounted for in accordance with IFRS 3 as a business combination using the acquisition method. The acquired identified assets and liabilities were recorded at fair value as of the acquisition date. Taking into account the acquired net assets of EUR -83 million that are to be allocated to the Company, the acquired goodwill amounted to EUR 363 million.

In view of the material impact in total that the acquisition had on the amounts of net assets, liabilities, financial position, and financial performance of the Group and given the complexity of measuring the acquisition, this matter was of particular significance in the context of our audit.

② In auditing the accounting treatment of the acquisition, we assessed the calculation of the purchase price, the remeasurement of the assets acquired and liabilities assumed at fair value and the calculation of goodwill, and evaluated their appropriateness. For this purpose we initially inspected and assessed the contractual agreements relating to the acquisition and reconciled the purchase price paid as consideration for the acquired business operations received with the supporting payment documentation provided to us. We assessed the underlying opening balance sheet figures for said acquisition. We assessed centrally calculated fair values (e.g., for customer relationships) by evaluating the assumptions in the business plan on the basis of market expectations and discussions with the Company. We also used checklists to check the completeness of the disclosures in the notes to the consolidated financial statements required by IFRS 3.

Based on our audit procedures, we were able to satisfy ourselves that the acquisition of On-Course Learning was appropriately accounted for and that the executive directors' assumptions underlying this accounting treatment are substantiated and sufficiently documented.

③ The Company's disclosures relating to the acquisition of the shares in OnCourse Learning are contained in the sections entitled "Acquisitions and divestments" and "Effects of the acquisition" of the notes to the consolidated financial statements.

Other Information

The executive directors are responsible for the other information. The other information comprises the annual report – excluding crossreferences to external information – with the exception of the audited consolidated financial statements, the audited group management report and our auditor's report.

Our audit opinions on the consolidated financial statements and on the group management report do not cover the other information, and consequently we do not express an audit opinion or any other form of assurance conclusion thereon.

In connection with our audit, our responsibility is to read the other information and, in so doing, to consider whether the other information

- is materially inconsistent with the consolidated financial statements, with the group management report or our knowledge obtained in the audit, or
- otherwise appears to be materially misstated.

Responsibilities of the Executive Directors and the Supervisory Board for the Consolidated Financial Statements and the Group Management Report

The executive directors are responsible for the preparation of the consolidated financial statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB and that the consolidated financial statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and financial performance of the Group. In addition the executive directors are responsible for such internal control as they have determined necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the executive directors are responsible for assessing the Group's ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements and measures (systems) as they have considered necessary to enable the preparation of a group management report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the group management report.

The supervisory board is responsible for overseeing the Group's financial reporting process for the preparation of the consolidated financial statements and of the group management report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group management report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the consolidated financial statements and the knowledge obtained in the audit, complies with the German legal requirements and appropriately presents the opportunities and risks of future development, as well as to issue an auditor's report that includes our audit opinions on the consolidated financial statements and on the group management report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with § 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements and this group management report.

We exercise professional judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of the group management report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our audit opinions. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) relevant to the audit of the group management report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an audit opinion on the effectiveness of these systems.
- Evaluate the appropriateness of accounting policies used by the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.
- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in the auditor's report to the related disclosures in the consolidated financial statements and in the group management report or, if such disclosures are inadequate, to modify our respective audit opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to § 315e Abs. 1 HGB.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express audit opinions on the consolidated financial statements and on the group management report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinions.
- Evaluate the consistency of the group management report with the consolidated financial statements, its conformity with German law, and the view of the Group's position it provides.
- Perform audit procedures on the prospective information presented by the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate audit opinion on the prospective information and on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, the related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other Legal and Regulatory Requirements

Further Information pursuant to Article 10 of the EU Audit Regulation

We were elected as group auditor by the annual general meeting on May 14, 2018. We were engaged by the supervisory board on August 29, 2018. We have been the group auditor of Bertelsmann SE & Co. KGaA, Gütersloh, without interruption since the financial year 2011.

We declare that the audit opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Article 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor Responsible for the Engagement

The German Public Auditor responsible for the engagement is Christian Landau.

Bielefeld, March 14, 2019

PricewaterhouseCoopers GmbH
Wirtschaftsprüfungsgesellschaft

Christian Landau	Volker Voelcker
Wirtschaftsprüfer	Wirtschaftsprüfer
(German Public Auditor)	(German Public Auditor)

Corporate Governance at Bertelsmann

The pursuit of responsible corporate governance is part of the Bertelsmann identity and an important element of its corporate culture. The German Corporate Governance Code as amended on February 7, 2017, is an accepted standard for good corporate governance. Bertelsmann SE & Co. KGaA is a capital market-oriented company but is unlisted. The company is therefore not subject to the statutory requirement to issue a formal declaration as per section 161 of the German Stock Corporation Act. Nevertheless, the recommendations and suggestions contained in the German Corporate Governance Code serve as guidelines for Bertelsmann SE & Co. KGaA. Exceptions to this code in Bertelsmann's own corporate governance relate primarily to those recommendations and suggestions that apply to publicly held enterprises with large numbers of shareholders or anonymous shareholders, and above all to those recommendations concerning the organization of the Annual General Meeting and remuneration of the Executive Board and Supervisory Boards. Because it is not obligated to disclose Executive Board remuneration, Bertelsmann SE & Co. KGaA consequently also does not prepare a report on Executive Board remuneration.

Statutory Bodies of the Company

Bertelsmann's legal form is that of a Kommanditgesellschaft auf Aktien (KGaA) (partnership limited by shares). The statutory bodies of the KGaA are the General Meeting, the Supervisory Board and the general partner. The general partner serves as the management and representative body of the KGaA. In the case of Bertelsmann, this is Bertelsmann Management SE, a European stock corporation (Societas Europaea), represented by its Executive Board. Bertelsmann SE & Co. KGaA and Bertelsmann Management SE each have their own Supervisory Boards. The members of the Executive Board of Bertelsmann Management SE are appointed and monitored by the Supervisory Board of Bertelsmann Management SE (dual leadership structure). The Supervisory Board of Bertelsmann Management SE & Co. KGaA supervises the management of the business by Bertelsmann Management SE. The duties and responsibilities of the individual bodies are clearly defined in each case and are strictly separated from each other. It is not permitted for a member of the Executive Board of Bertelsmann Management SE to also be a member of the Supervisory Board of Bertelsmann Management SE or the Supervisory Board of Bertelsmann SE & Co. KGaA. The Bertelsmann boards are obliged to secure the continuity and independence of the company and to enhance the enterprise value in the long term through responsible and sustainable corporate management.

Closed Group of Shareholders

Three foundations (Bertelsmann Stiftung, Reinhard Mohn Stiftung and BVG-Stiftung) indirectly hold 80.9 percent of Bertelsmann SE & Co. KGaA shares, with the remaining 19.1 percent held indirectly by the Mohn family. Bertelsmann Verwaltungsgesellschaft (BVG) controls all voting rights at the General Meetings of Bertelsmann SE & Co. KGaA and Bertelsmann Management SE. BVG is responsible for upholding the interests of the foundations invested in Bertelsmann and of the Mohn family as indirect shareholders in Bertelsmann SE & Co. KGaA, as well as ensuring the continuity of the company's management and Bertelsmann's corporate culture. BVG is controlled by a steering committee composed of three representatives of the Mohn family and three additional non-family members.

Corporate Management

Transparent structures and clear decision-making processes are characteristic for Bertelsmann's corporate management. The general partner, Bertelsmann Management SE, represented by its Executive Board, is responsible for independently managing the company. The duties consist of determining the corporate objectives, the strategic direction of the Group, Group management, management training, and corporate planning and financing. The Executive Board provides the respective Supervisory Boards with regular, prompt and comprehensive reports on all matters that are relevant to business development and strategy implementation, planning, financial and earnings position, the risk situation, and risk management. It ensures compliance with the provisions of law and corporate guidelines within the Group. The members of the Executive Board bear joint responsibility for the overall management. Matters of fundamental significance and matters concerning the spheres of responsibility of multiple Executive Board members are addressed by the overall Executive Board. Notwithstanding this overall responsibility, the individual members of the Executive Board manage their departments as part of the duties stipulated by the overall Executive Board. The Executive Board Chairman coordinates the cooperation within the Executive Board and between the Executive Board and the Supervisory Boards, and has regular consultation meetings with the chairs of the two Supervisory Boards. In addition, the Executive Board has established the Group Management Committee (GMC), which advises on important corporate strategy and development matters and other issues that affect the Group as a whole. This committee currently has 18 members and includes members of the Executive Board as well as executives representing key businesses, countries, regions and select Group-wide functions.

The Supervisory Board of Bertelsmann SE & Co. KGaA supervises the management of the business by the general partner and uses its extensive information and control rights for this purpose. In addition, the Supervisory Boards advise the Executive Board on strategic matters and significant transactions. The Executive and Supervisory Boards work in close, trusting cooperation and are able to reconcile the demands of effective corporate governance with the need for rapid decision-making processes. Fundamental matters of corporate strategy and their implementation are discussed openly and coordinated in joint sessions. Any significant measures to be taken by the Executive Board are subject to the approval of the Supervisory Board. The Supervisory Board reviews the Annual and Consolidated Financial Statements, the Combined Management Report of Bertelsmann SE & Co. KGaA and the Group, and the proposal for the appropriation of net retained earnings. It approves the Annual Financial Statements of Bertelsmann SE & Co. KGaA and the Consolidated Financial Statements, taking into account the results of the preliminary review conducted by the Audit and Finance Committee and the audit reports prepared by the auditor. The Bertelsmann SE & Co. KGaA and Bertelsmann Management SE shareholders exercise their rights and vote at the respective General Meetings. The General Meetings vote on matters such as amendments to the articles of association and the appropriation of net income, and elect the members of the respective Supervisory Boards. The members of the Executive and Supervisory Boards are obliged to serve the company's best interests in their work. For some time, the delegation of tasks to committees of experts has been an integral component of the Supervisory Boards' work at Bertelsmann. It serves to increase the monitoring efficiency and advisory expertise of the Supervisory Boards. The Supervisory Board of Bertelsmann Management SE has formed a Personnel Committee and a Program Committee, and the Supervisory Board of Bertelsmann SE & Co. KGaA has formed an Audit and Finance Committee and the Working Group of Employee and Management Representatives. The tasks of a Nomination Committee were also assigned to the Personnel Committee, in which capacity it recommends to the plenary session of the Supervisory Board suitable candidates at the General Meeting. The Program Committee, instead of the Supervisory Board, decides on the approval of the Supervisory Board to enter into program supply deals – for example, for feature films, series or sports rights. The Audit and Finance Committee of the Supervisory Board of Bertelsmann SE & Co. KGaA is also involved in the accounting process and monitors the effectiveness of the risk monitoring and risk management system, the internal control system and the internal auditing system. One focus of the Audit and Finance Committee is a review of the Annual and Consolidated Financial Statements, a detailed discussion of the auditor's reports and the preparation of draft resolutions for submission to the plenary session of the Supervisory Board. Furthermore, the Committee addresses issues relating to compliance, in particular the effectiveness and proper functioning of the compliance organization and the related topic of integrity within the Group. These committees prepare the topics to be addressed during the plenary meetings of the Supervisory Boards. The committee chairs or, where applicable, their representatives, then report to the plenary meetings on the work performed. The Supervisory Boards' decision-making powers have been transferred to the committees to the extent permitted by law. The breadth and range of responsibilities and tasks delegated to these committees are continuously reviewed through various evaluation processes. The appropriate size of the Supervisory Boards and the experience and professional expertise of their members, who are drawn from a broad range of industries and areas of activity, are key factors in the effectiveness and independence of the work carried out by the Supervisory Board and reflect the specific ownership structure at Bertelsmann. With the exception of Supervisory Board members who are also members of the Mohn family (Dr. Brigitte Mohn, Christoph Mohn, Liz Mohn) and the employee representatives on the Supervisory Board (Kai Brettmann, Günter Göbel, Christiane Sussieck) or the representative of the Bertelsmann Management Representative Committee BMRC (Ian Hudson), the Supervisory Board considers all other members of the Supervisory Board (Prof. Dr. Werner Bauer, Dr. Thomas Buberl, Bernd Leukert, Gigi Levy-Weiss, Hans Dieter Pötsch, Kasper Rorsted and Bodo Uebber) to be independent for the purposes of the German Corporate Governance Code. Accordingly, the Supervisory Board has an appropriate number of independent members among the shareholders. For details of the work of the Supervisory Board, please refer to the Report of the Supervisory Board (p. 143 ff.).

Diversity in Practice

At a global company like Bertelsmann, diversity within the workforce is a key element of the Group's creativity and its ability to be innovative, and is essential for long-term economic success in its various markets.

Bertelsmann pursues the goal of promoting staff diversity in various facets and ascribes high importance to increasing diversity. A cross-divisional, international working group has been tasked with promoting diversity at all levels of the company (see "Combined Non-Financial Statement" within the Combined Management Report, p. 40 ff.). This includes a focus on increasing diversity within senior management. The 18 members of the senior management of the GMC originate from seven different nations. Six members of this committee are women. The Supervisory Board supports all measures in the area of succession planning, management development and the selection processes that help achieve the aim of equal participation within the workforce.

Bertelsmann SE & Co. KGaA is an unlisted company and is not subject to parity codetermination. The "Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act" does not apply to the two Supervisory Board bodies. Nevertheless, Bertelsmann supports the goal of this legislation. Three of the 14 Supervisory Board members are women. Even though the Supervisory Board will not be setting a target quota for women on the Supervisory Board for the time being, the share of women in new appointments should not go down. When candidates are nominated for election as new members of the Supervisory Board, consideration is always given to the aim of increasing the proportion of female members or members from other countries.

Integrity & Compliance

Corporate responsibility, lawful behavior and acting with integrity toward employees, customers, business partners and government agencies are an integral part of our value system at Bertelsmann. Bertelsmann has always been committed to the principle of adhering to laws and has internal policies on the prevention of risks and their consequences.

To ensure compliance, the Executive Board has established a compliance organization and the Integrity & Compliance program. It oversees this program and ensures that it is continuously improved. The Supervisory Board Audit and Finance Committee monitors the effectiveness and proper functioning of the compliance organization. The Executive Board established the Corporate Compliance Committee (CCC). Each year, the CCC submits an extensive report about compliance within the Group to the Executive and Supervisory Boards. It also provides ad hoc reports to the Executive and Supervisory Boards in the event of any significant compliance violations. The CCC is responsible for the effectiveness of measures designed to ensure compliance and for promoting a culture of integrity and compliant conduct within the Bertelsmann Group. In particular, the CCC monitors investigations into compliance violations and the measures taken to prevent violations. The Integrity & Compliance department is responsible for the day-to-day work to ensure compliance, implementing Board-mandated compliance initiatives and managing the whistleblowing systems.

The Bertelsmann Integrity & Compliance program is based on the relevant standards for compliance management systems and helps to mitigate risks in various ways. Its basic elements include, in particular, the Bertelsmann Code of Conduct, risk analysis, advice on compliance, communication and training measures, whistleblowing systems that give not only employees but also third parties the opportunity to report misconduct in the company without fear of reprisal, and case management. It also includes additional measures in specific subject areas, such as anti-corruption, antitrust law, foreign trade law and antidiscrimination.

The Executive Board has continuously developed and expanded Bertelsmann's compliance structure and organization over time, including during the financial year 2018. In 2018, Code of Conduct training for employees continued. Additional training was offered on topics such as anti-corruption, antitrust law, foreign trade law, business partner compliance and antidiscrimination. Over the last few years, the interlinks between the compliance organization and the risk management system have been strengthened and the Supplier Code of Conduct has been approved. In 2018, guidelines were implemented on the compliance organization and the role of local Compliance Officers.

All reports of compliance violations received were investigated and appropriate actions were taken.

Executive Board Supervisory Board

Report of the Supervisory Board

Christoph Mohn
Chairman of the Supervisory Board of Bertelsmann SE & Co. KGaA

Dear shareholders,

The global economy experienced dynamic growth again in the financial year 2018, although the rate of expansion decreased somewhat. As expected, growth was uneven in markets relevant to Bertelsmann. TV advertising markets recorded growth in France and the Netherlands, remained stable in Spain and Hungary, but declined in Germany and Belgium. The markets for printed books achieved slightly positive growth overall, while the publishing sales of e-books declined substantially. The market for audiobooks continued to grow strongly in the United States and the United Kingdom. The magazine markets in Germany and France were characterized by significantly to strongly declining print advertising and circulation business; the corresponding digital businesses, however, continued to post strong growth. The global music markets for publishing and recording rights and the related service markets also continued to show sustained growth in sectors relevant to Bertelsmann. The European printing markets, in contrast, showed further decline, with the offset printing markets seeing more robust development than the gravure printing markets. The education markets relevant to Bertelsmann in the e-learning and university education segments continued their overall strong growth trajectory. In this divergent market environment, the Bertelsmann Group once again saw organic revenue growth and an increase in the revenue share contributed by growth businesses. Operating earnings decreased, as expected, due to high gains from real estate transactions in the previous year.

In the reporting period, the Supervisory Board of Bertelsmann SE & Co. KGaA again diligently fulfilled the duties incumbent upon it by law and under the articles of association and bylaws. Its members regularly advised and monitored the personally liable partner, Bertelsmann Management SE, represented by its Executive Board, in the task of managing and directing the company's operations. This report covers the activities of the Supervisory Board of Bertelsmann SE & Co. KGaA. The activities of the Supervisory Board of Bertelsmann Management SE, which in turn serves as the Supervisory Board of the personally liable partner of Bertelsmann SE & Co. KGaA, are not the subject of this report.

Advising and Monitoring the Executive Board of Bertelsmann Management SE

As part of its advisory and monitoring activities, the Supervisory Board of Bertelsmann SE & Co. KGaA was directly involved in important company decisions and transactions at an early stage and discussed and reviewed these at length on the basis of reports from the Executive Board.

The personally liable partner, represented by the Executive Board of Bertelsmann Management SE, provided the Supervisory Board with regular, prompt and comprehensive written and verbal reports on all significant issues of strategy, planning, business performance, intended business policies and other fundamental management issues. A wide range of topics and projects were presented for discussion at the meetings of the Supervisory Board. Reporting of the Executive Board concerned, but was not limited to, the position and development of the company, especially the current business and financial position, and material business transactions, particularly major planned investments and divestments. Instances where business performance deviated from official projections and targets were discussed in detail with the Supervisory Board, which reviewed these matters on the basis of the documentation submitted. The Supervisory Board regularly obtained information concerning financial debt levels. The Supervisory Board also focused on the risk situation and risk management. The internal control system, risk management system and internal auditing system were the subjects of regular reports and discussions. The Supervisory Board also received regular reports on corporate governance and compliance developments at Bertelsmann. The Executive Board and the Supervisory Board report jointly on corporate governance and compliance at Bertelsmann on pages 140–142.

Supervisory Board Plenary Meeting

In the plenary meetings, the Supervisory Board of Bertelsmann SE & Co. KGaA regularly heard reports from the Executive Board on the current business and financial position of the Group and of the individual divisions. They also heard reports on Group planning and material business transactions, particularly major planned investments and divestments. The Supervisory Board Chairman, who at the same time is the Chairman of the Supervisory Board of Bertelsmann Management SE, reported regularly and comprehensively to the plenary session of the Supervisory Board concerning the topics and the progress of discussions in the Supervisory Board of Bertelsmann Management SE. The Supervisory Board was kept regularly informed of the status of the implementation of the Group's strategy by the Executive Board. The Bertelsmann SE & Co. KGaA Supervisory Board and the Bertelsmann Management SE Executive Board discussed fundamental issues of strategic Group development and modifications to the Group strategy. To the extent stipulated by law and the articles of association or bylaws, the plenary meeting made the necessary decisions. In the financial year 2018, the Supervisory Board held four meetings and also met with the Executive Board for a two-day strategy retreat.

The first meeting of the Supervisory Board on January 31, 2018, focused on discussing and passing resolutions regarding the Group budget for 2018 and on the report of the current business and financial situation. The Supervisory Board also deliberated over the further expansion of the Bertelsmann Group portfolio. One of the main points of discussion was the further expansion of Bertelsmann's global customer relationship management businesses (Arvato CRM).

At the following meeting, on March 20, 2018, in addition to routine reports, the Executive Board reported on the current business situation and on progress that had been made in implementing the Group strategy. A further agenda item was the approval of the Annual and Consolidated Financial Statements for 2017 and the Combined Management Report. At the recommendation of the Audit and Finance Committee and after discussion with the auditors PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft (PwC), the Supervisory Board approved the Annual and Consolidated Financial Statements for the financial year 2017 and the Combined Management Report of Bertelsmann SE & Co. KGaA. The proposal of the personally liable partner for the appropriation of net income was also approved. Furthermore, the Supervisory Board followed the recommendations of the Audit and Finance Committee for the appointment of the auditor for the financial year 2018 and for the interim report, and resolved on its corresponding proposal to the Annual General Meeting. Another agenda item at the meeting was a follow-up report on the Executive Board's plans for the future of Bertelsmann's customer relationship management businesses.

As usual, the annual Strategic Planning Dialogue between the Executive Board and the Supervisory Board took place as part of the two-day meeting of the Supervisory Board on July 11 and 12, 2018. The Supervisory Board was first updated on the status of strategy implementation and the progress made in the transformation of the Group portfolio since the last Strategic Planning Dialogue. It assessed a steady increase in operative growth, an increasing share of revenue generated by digital and high-growth businesses, and a decline in Group businesses' dependency on advertising. The Group has also succeeded in further expanding its businesses in the growth regions of China, India and Brazil. The Supervisory Board discussed exemplary growth and innovation projects in the individual divisions and model cooperation projects between individual businesses from different divisions. The HR strategy presented at the meeting constitutes a significant element in the successful implementation of the Group strategy. Based on the outcome of the strategy retreat, the Supervisory Board believes that Bertelsmann is well positioned for the challenges of the future. The Board went on to discuss the Executive Board's specific plans for combining Bertelsmann's customer relationship management businesses with Morocco's Saham Group and with potential investment projects of the Bertelsmann Education Group.

In the last Supervisory Board meeting of the financial year, on October 11, 2018, the Supervisory Board once again addressed the business and financial position of the Group and was given a report on the outlook for the overall financial year by the Executive Board. A special focus of the meeting was the Executive Board's update on the steps and measures taken to develop and revise the Bertelsmann Essentials, which express the values represented in Bertelsmann's corporate culture.

The Supervisory Board Chairman maintained ongoing contact with the Executive Board outside the framework of Supervisory Board meetings, in particular with the Executive Board Chairman, in order to stay abreast of the current business situation and significant transactions. All Supervisory Board members attended at least half of the Supervisory Board meetings convened. No potential conflicts of interest arose on the Supervisory Board. The Supervisory Board discussed the standards set out in the German Corporate Governance Code and Bertelsmann's compliance with the code. A joint report by the Supervisory and Executive Boards of Bertelsmann Management SE on corporate governance within the company is provided on page 140 ff. of this Annual Report. As an unlisted company, Bertelsmann does not issue a formal declaration of compliance as per section 161 of the German Stock Corporation Act.

Audit of the Annual and Consolidated Financial Statements for the Financial Year 2018

PricewaterhouseCoopers GmbH Wirtschaftsprüfungsgesellschaft, Frankfurt, audited the Annual and Consolidated Financial Statements produced by the Bertelsmann Management SE Executive Board and the Bertelsmann SE & Co. KGaA Group Management Report, which is combined with the company's management report for the financial year January 1 through December 31, 2018. Each report received an unqualified auditor's opinion. The Annual Financial Statements were produced in accordance with the German Commercial Code (HGB), and the Consolidated Financial Statements of Bertelsmann SE & Co. KGaA were produced in accordance with the International Financial Reporting Standards (IFRS) as applicable in the European Union in line with section 315a HGB. The auditor was mandated by the Supervisory Board's Audit and Finance Committee to audit the Annual Financial Statements and Consolidated Financial Statements in accordance with the Annual General Meeting resolution. The auditor performed the audit in observance of German accepted auditing principles established by the German Institute of Independent Auditors (IDW). The auditor was additionally instructed to audit the risk early-warning system at Bertelsmann SE & Co. KGaA, which it found to be satisfactory in terms of section 91 (2) AktG (German Stock Corporation Act). The provisional results of the Key Audit Matters were discussed with the auditor in a video conference on March 7, 2019. The auditor of the Annual Financial Statements promptly submitted the audit reports and the other financial statement documents to all members of the Supervisory Board by the specified deadline in advance of the financial review meeting. The auditor attended the financial review meeting of the Audit and Finance Committee on March 21, 2019, and of the plenary session of the Supervisory Board on March 22, 2019, where he gave an extensive report and answered questions. He was able to confirm that, in the course of the audit, no significant weaknesses had been identified in the accounting-related internal control system. The Audit and Finance Committee discussed the Annual Financial Statements documents and audit reports in detail. The findings of the auditor of the Annual Financial Statements were carefully reviewed in an internal audit of the Annual and Consolidated Financial Statements. The Audit and Finance Committee reported comprehensively to the plenary session of the Supervisory Board concerning the audit of the Annual and Consolidated Financial Statements and the audit reports.

On March 22, 2019, the plenary session of the Supervisory Board reviewed and discussed the Annual Financial Statements, Consolidated Financial Statements and Combined Management Report in detail, taking into account the recommendations of the Audit and Finance Committee and those contained in the audit reports and following further discussion with the auditor. The Supervisory Board concurred with the audit findings. After its own final scrutiny of the Annual and Consolidated Financial Statements and the Combined Management Report, the Supervisory Board – acting in accordance with the Audit and Finance Committee's recommendation – raised no objections. The financial statements produced by the Bertelsmann Management SE Executive Board were thus approved. Moreover, the Supervisory Board approved the Report of the Supervisory Board for the Annual General Meeting and the Corporate Governance Report, as well as its resolution proposals concerning the agenda items for the ordinary Annual General Meeting on May 21, 2019. The Supervisory Board has furthermore reviewed the Bertelsmann Management SE Executive Board proposal as to the amount of net retained earnings for appropriation to shareholders and concurs with said proposal. The amount of the dividend proposed by the Executive Board of Bertelsmann Management SE is appropriate, in the view of the Supervisory Board, in consideration of the level of Group profit, the economic environment, the company's economic situation and the interests of the shareholders.

Supervisory Board Audit and Finance Committee

Within its sphere of responsibility, the Supervisory Board of Bertelsmann SE & Co. KGaA established the Audit and Finance Committee to perform its tasks efficiently. The Audit and Finance Committee has four members; the Chair of the Supervisory Board does not lead this committee. The Chair of the Audit and Finance Committee is Bodo Uebber.

The German Corporate Governance Code stipulates that the Chair of the Audit and Finance Committee is independent as defined by the code and has special knowledge and experience in the application of accounting standards and internal control procedures. All members of the Audit and Finance Committee are familiar with the sector in which Bertelsmann SE & Co. KGaA operates.

In particular, and in accordance with its mandate for the reporting year, the Audit and Finance Committee discussed issues of corporate financing, financial planning, fiscal policy and individual negative deviations of the performance of Group businesses from budgeted performance. The committee also extensively addressed the accounting process and monitored the effectiveness and functional capability of the risk monitoring and risk management system, the internal control system and the internal audit system. It also requested regular reports from the Head of Corporate Audit and Consulting. Furthermore, the Committee addressed issues relating to compliance, in particular the effectiveness and proper functioning of the compliance management system. In addition, the Audit and Finance Committee reviewed at length the implementation of the Audit Reform Act and the EU General Data Protection Regulation (GDPR) at Bertelsmann. An issue regularly addressed in the meetings of the Audit and Finance Committee was the status and development of cybersecurity in the Group.

While routinely discussing structural issues in a separate meeting, an area of special focus was the approaching process of re-tendering the auditor contract. After first being informed about the new legal regulations for the tendering process, the Committee approved the start of preparatory measures for a tendering of the auditor contract. Another agenda item was the EU General Data Protection Regulation (GDPR). During this part of the meeting, the Audit and Finance Committee was briefed on the Group's data protection strategy and the establishment of a Group data protection organization that complies with legal requirements. The Audit and Finance Committee also discussed the Group's fiscal policy and structure.

The Committee focused largely on the auditing of the Annual Financial Statements and the Consolidated Financial Statements (see also the section "Audit of the Annual and Consolidated Financial Statements" above). The Audit and Finance Committee had already discussed the focal points of the audit with the auditor during the financial year 2017 and then finalized them in a Committee meeting. The Key Audit Matters from the auditor's report were also discussed with the auditor in advance during the Committee meeting held at the end of January 2018. The Chair of the Audit and Finance Committee regularly discussed the provisional findings from the audit of the Annual and Consolidated Financial Statements for the financial year 2017 at length with the auditor before the Committee's financial review meeting that took place on March 20, 2018. In this role, the Committee also addressed the independence of the auditor and additional services performed by the auditor. There was no indication of grounds for bias or a risk to independence. The 2018 Interim Report was extensively discussed with the Committee prior to its publication on August 29, 2018.

The Audit and Finance Committee of Bertelsmann SE & Co. KGaA met four times during the 2018 reporting period. An additional meeting was held via teleconference. The Chairman of the Audit and Finance Committee or his representative continuously updated the plenary session of the Supervisory Board on the work of the Committee through regular reports. Department heads, such as those from the Corporate Financial Reporting, Corporate Taxation and Corporate Legal departments, were represented during the discussion of individual agenda items. In addition, the Chair of the Audit Committee held individual meetings with the responsible auditor.

Changes in the Executive Board of Bertelsmann Management SE and in the Supervisory Board, Objectives for the Composition of the Supervisory Board

The business of Bertelsmann SE & Co. KGaA is managed by its personally liable partner, Bertelsmann Management SE, represented by its Executive Board. The past financial year saw the following change to the Executive Board of Bertelsmann Management SE: The appointment of Anke Schäferkordt, Executive Board member and Managing Director of Mediengruppe RTL Deutschland, as a member of the Executive Board of Bertelsmann Management SE ended on December 31, 2018, on the best of terms and by mutual agreement. The Supervisory Board would like to thank Anke Schäferkordt for her outstanding service. The financial year also saw the following changes to the Supervisory Board: With the end of the ordinary Annual General Meeting of Bertelsmann SE & Co. KGaA on May 14, 2018, the term of office ended for Supervisory Board members Prof. Dr. Werner Bauer, Kai Brettmann, Murat Cetin, Helmut Gettkant, Ian Hudson, Gigi Levy-Weiss, Christoph Mohn and Christiane Sussieck. Christiane Sussieck, Prof. Dr. Werner Bauer, Gigi Levy-Weiss, Christoph Mohn, Kai Brettmann, Murat Cetin and Ian Hudson were re-elected as members of the Supervisory Board of Bertelsmann SE & Co. KGaA, with immediate effect. The Supervisory Board would like to thank Helmut Gettkant for many years of excellent and trusting cooperation. On January 9, 2018, Günter Göbel, member of the Works Council of Bertelsmann SE & Co. KGaA, was elected as a new member of the Supervisory Board. Murat Cetin left the Supervisory Board of Bertelsmann SE & Co. KGaA on February 28, 2019. The Supervisory Board would also like to thank him for the many years of excellent and trusting cooperation. At present, all 10 members of the Supervisory Board of Bertelsmann Management SE are also members of the currently 14-strong Supervisory Board of Bertelsmann SE & Co. KGaA.

The “Equal Participation of Women and Men in Leadership Positions in the Private and Public Sector Act” does not apply to the Supervisory Board of Bertelsmann SE & Co. KGaA as it is an unlisted company. However, the Supervisory Board does support the aim of the act. From a strategic point of view, the Supervisory Board also aims to properly fulfill its monitoring and consulting function by ensuring diversity among its members. The Supervisory Board will not at this time, however, set any target quota for women on the Supervisory Board. It firmly believes that within the company suitable measures have been taken in the areas of succession planning, management development and the selection processes to ensure the equal participation of men and women on an ongoing basis. In the Supervisory Board, the aim is to ensure that the existing proportion of women will not be reduced when new members are appointed. Ideally, the backgrounds of new members will show links to Bertelsmann’s growth regions and markets. (See also the section “Diversity in Practice” in the Corporate Governance Report on page 141 f.) Apart from the three representatives of the Mohn family and the four employee representatives, the Supervisory Board of Bertelsmann SE & Co. KGaA consists exclusively of independent Supervisory Board members. The Supervisory Board recognizes the intention of the Government Commission on the German Corporate Governance Code in its call for a specification of targets for an age limit and a standard limit for length of service on the Supervisory Board. In view of Bertelsmann’s particular shareholder structure and the age limit regulations already contained in the company’s articles of association, the Supervisory Board does not feel it is necessary or appropriate to introduce further or more extensive specifications on age limit and length of service at Bertelsmann.

The Supervisory Board would like to express its gratitude for the great dedication and commendable performance of the Executive Board during the financial year 2018. The Supervisory Board also wishes to thank all employees of the Bertelsmann Group and its corporate management for their commitment and contribution to a successful financial year 2018.

Gütersloh, March 22, 2019

Christoph Mohn
Chairman of the Supervisory Board

Supervisory Board

Christoph Mohn
Chairman
Chairman of the Reinhard Mohn Stiftung
Managing Director, Christoph Mohn Internet Holding GmbH
- Bertelsmann Management SE (Chairman)

Prof. Dr.-Ing. Werner J. Bauer
Vice Chairman
Former Executive Vice President of Nestlé AG for Innovation, Technology, Research and Development
- Bertelsmann Management SE (Vice Chairman)
- GEA-Group AG (until November 12, 2018)
- Givaudan S.A. (Vice Chairman)
- LONZA S.A.
- SIG Combibloc Group AG (since September 27, 2018)

Kai Brettmann
Editorial Director Online, RTL Nord GmbH, Hamburg
Chairman of the RTL Group European Works Council
Chairman of the Mediengruppe RTL Deutschland Corporate Works Council
Chairman of the Works Council of RTL Nord

Dr. Thomas Buberl (since January 16, 2018)
Chairman of the Executive Board, AXA S.A.
- AXA Konzern AG (Chairman) (until April, 27, 2018)
- Bertelsmann Management SE (since January 16, 2018)
- AXA ASIA (until June 20, 2018)
- AXA Equitable Holdings, Inc.
- AXA Equitable Life Insurance Company
- AXA Financial, Inc. (until May 16, 2018)
- AXA Leben AG (until April 19, 2018)
- AXA Versicherungen AG (until April 19, 2018)
- AXA XL Group Ltd. (since September 12, 2018)
- MONY Life Insurance Company of America

Murat Cetin (until February 28, 2019)
Chairman of the Works Council, Arvato Direct Services Dortmund GmbH
Chairman of the General Works Council, Arvato Services CRM2
Member of the Works Council, Bertelsmann SE & Co. KGaA

Helmut Gettkant (until May 14, 2018)
Chairman of the Corporate Works Council,
Bertelsmann SE & Co. KGaA (until June 28, 2018)

Günter Göbel (since July 9, 2018)
Chairman of the Corporate Works Council,
Bertelsmann SE & Co. KGaA (since June 28, 2018)

Ian Hudson
Chairman of the International Management Representative Committee of Bertelsmann SE & Co. KGaA (BMRC)
- Which? Limited

Bernd Leukert
Member of the Executive Board, SAP SE,
Products & Innovation (until February 20, 2019)
- Bertelsmann Management SE
- Deutsches Forschungszentrum für Künstliche Intelligenz (DFKI) GmbH
- TomTom NV

- Membership of statutory domestic supervisory boards (blue bullet)
- Membership of comparable domestic and foreign supervisory bodies of business enterprises (red bullet)

Gigi Levy-Weiss
Angel Investor
- Bertelsmann Management SE
- Beach Bum Ltd.
- BrandShield Ltd.
- Caja Elastic Dynamic Solutions Ltd.
- Correlsense Ltd.
- Driveway Software Corporation
- Fusic Ltd.
- Global-e Online Ltd. (until March 1, 2018)
- Hola NFX UK, Ltd (since May 15, 2018)
- IMA Ventures Ltd.
- Inception VR
- Jeeng Application Ltd.
- MarketsBook Ltd. (until January 1, 2018)
- Mov.AI Ltd. (since May 21, 2018)
- MyHeritage Ltd.
- Neta Eisenstein Management (2000) Ltd. (until October 18, 2018)
- NFX Capital UK, Ltd (since July 3, 2018)
- Premium Domains Ltd.
- Seven Elements Studios, Inc. (until September 30, 2018)
- SimilarWeb
- SpeakEZ Ltd. (until November 11, 2018)
- Tectonic Labs Ltd. (since March 26, 2018)
- Touristic Services Ltd.
- TrustMed Ltd.
- Volunteer Directly Ltd.

Dr. Brigitte Mohn
Member of the Executive Board, Bertelsmann Stiftung
- Bertelsmann Management SE
- Phineo gAG
- Rhön-Klinikum AG
- Clue by Biowink GmbH
- Flytxt B.V. (until October 24, 2018)

Liz Mohn
Chairwoman of the Board of
Bertelsmann Verwaltungsgesellschaft mbH (BVG)
Vice Chairwoman of the Executive Board,
Bertelsmann Stiftung
- Bertelsmann Management SE

Hans Dieter Pötsch
Chairman of the Supervisory Board, Volkswagen AG
Chairman of the Executive Board /
Chief Financial Officer, Porsche Automobil Holding SE
- AUDI AG, Ingolstadt
- Autostadt GmbH, Wolfsburg (Chairman until June 14, 2018)
- Bertelsmann Management SE
- Dr. Ing. h.c. F. Porsche AG
- TRATON SE, München (Chairman – incl. legal predecessor – since June 14, 2018)
- Wolfsburg AG
- Porsche Austria Gesellschaft m.b.H., Salzburg
- Porsche Holding Gesellschaft m.b.H., Salzburg
- Porsche Retail GmbH, Salzburg

Kasper Rorsted
Chairman of the Executive Board, Adidas AG
- Bertelsmann Management SE
- Nestlé S.A. (since April 12, 2018)

Christiane Sussieck
Chairwoman of the Corporate General Works Council,
Bertelsmann SE & Co. KGaA
Vice Chairwoman of the Corporate Works Council,
Bertelsmann SE & Co. KGaA

Bodo Uebber
Member of the Executive Board, Daimler AG
Finance & Controlling / Daimler Financial Services
- Bertelsmann Management SE
- Daimler Financial Services AG (Chairman)
- BAIC Motor Corporation Ltd.
- Delta Topco Ltd.
- Mercedes-Benz Grand Prix Ltd.

- Membership of statutory domestic supervisory boards
- Membership of comparable domestic and foreign supervisory bodies of business enterprises

Bertelsmann SE & Co. KGaA's Supervisory Board Committees 2018

Audit and Finance Committee
Bodo Uebber (Chairman)
Kai Brettmann
Christoph Mohn
Hans Dieter Pötsch

Working Group of Employee Representatives
Liz Mohn (Chairwoman)
Kai Brettmann
Murat Cetin (until February 28, 2019)
Helmut Gettkant (until May 14, 2018)
Günter Göbel (since July 9, 2018)
Ian Hudson
Christiane Sussieck

Bertelsmann Management SE's Supervisory Board Committees 2018

Personnel Committee
Christoph Mohn (Chairman)
Prof. Dr.-Ing. Werner J. Bauer
Liz Mohn
Hans Dieter Pötsch

Program Committee
Christoph Mohn (Chairman)
Prof. Dr.-Ing. Werner J. Bauer
Dr. Brigitte Mohn
Hans Dieter Pötsch

Executive Board

Thomas Rabe
Chairman
- Symrise AG[1] (Chairman)
- ACR – Advanced Customer Relation S.à r.l. (since January 4, 2019)
- Bertelsmann, Inc. (Chairman) (until November 30, 2018)
- Bertelsmann Learning LLC (until November 30, 2018)
- Penguin Random House LLC (Chairman since January 1, 2018)
- Relias Learning LLC (until November 30, 2018)
- RTL Group S.A. (Chairman)

Markus Dohle
Chief Executive Officer, Penguin Random House
- Direct Group Grandes Obras S.L.
- Editora Schwarcz S.A.
- Frederick Warne & Co. LLC
- Golden Treasures LLC
- Penguin Random House Foundation, Inc.
- Penguin Random House Grupo Editorial S.A.U.
- Penguin Random House Grupo Editorial (USA) LLC
- Penguin Random House LLC
- Random House Children's Entertainment LLC
- Sasquatch Books LLC
- Sputnik 84 LLC

Immanuel Hermreck
Chief Human Resources Officer
- RTL Group S.A. (since January 1, 2019)

Bernd Hirsch
Chief Financial Officer
- Evotec AG, Hamburg[1]
- Symrise AG[1] (since May 16, 2018)
- Bertelsmann, Inc. (Chairman since November 30, 2018)
- Penguin Random House LLC
- RTL Group S.A.

Anke Schäferkordt (until December 31, 2018)
Managing Director, Mediengruppe RTL Deutschland GmbH (until December 31, 2018)
Managing Director, RTL Television GmbH (until December 31, 2018)
- BASF SE[1]
- Groupe M6

- Membership of statutory domestic supervisory boards
- Membership of comparable domestic and foreign supervisory bodies of business enterprises

1) External mandates.

Selected Terms at a Glance

Alternative Performance Measures

Additional financial measures that are not directly specified by financial reporting regulations. These are determined by means of a company-specific reconciliation and are based on mandatory (IFRS) measures.

Bertelsmann Value Added (BVA)

A performance indicator for assessing the profitability of operations and return on invested capital. BVA is calculated as the difference between net operating profit after tax (NOPAT) and the cost of capital. NOPAT is calculated on the basis of operating EBITDA. By deducting depreciation, amortization and impairment losses and adjusting for special items, and after modifications and less a flat 33 percent tax, NOPAT, which is used as the basis for calculating BVA, is determined. Cost of capital is the product of the weighted average cost of capital (WACC, where uniform WACC after taxes is 8 percent) and the level of capital invested (Group's operating assets less non-interest-bearing operating liabilities).

Cash Flow

A company's cash inflows and outflows during a specific period.

Contractual Trust Arrangement (CTA)

The concept of funding and insolvency protection of pension obligations by transferring of assets into a structure similar to a trust. Assets are classified as plan assets under IFRS and netted against the company's pension obligations.

Corporate Governance

The term for responsible corporate management and control in the interest of creating sustainable value.

Coverage Ratio

The (interest) coverage ratio is a financing target. It represents the ratio of operating EBITDA to financial result. Amounts reported in the Annual Financial Statements are modified in calculating the coverage ratio.

Customer Relationship Management (CRM)

Customer Relationship Management (CRM) is a strategic approach that establishes, maintains and reinforces companies' customer relationships using state-of-the-art information and communication technologies.

Equity Method

The equity method is a method of accounting to recognize associates and joint ventures whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets.

Goodwill

Goodwill represents the future economic benefits arising from those assets acquired in a business combination that are not individually identified and separately recognized.

IFRS

Abbreviation of International Financial Reporting Standards. Accounting standards intended to ensure internationally comparable accounting and reporting.

Impairment

Write-down of intangible assets and property, plant and equipment.

Leverage Factor

The leverage factor is the ratio of economic debt to operating EBITDA. In calculating the leverage factor, modifications are made to the balance sheet figures to better reflect the Group's actual financial strength from an economic viewpoint.

Operating EBITDA

Earnings before interest, taxes, depreciation, amortization and special items.

Rating

An expression of the creditworthiness of a creditor or financial instrument by an agency specialized in evaluating credit risk.

SE & Co. KGaA

A partnership limited by shares (KGaA) with a European stock corporation (Societas Europaea, or SE) as the personally liable partner. The personally liable partner is responsible for the management and representation of the KGaA.

Special Items

Income and expense items that are distinguished by their nature, amount or frequency of occurrence, and the disclosure of which is relevant for assessing the earnings power of the company or its segments in the period affected. They include, for example, restructuring measures, impairments, and capital gains or losses. Not included in the special items are disposal effects of strategic real estate transactions.

Supply Chain Management (SCM)

Supply Chain Management (SCM) is a strategic approach that uses integrated logistics chains to establish, implement and optimize the organization of all logistics processes from companies to end customers.

Syndicated Credit Facility

A credit facility involving a consortium of banks.

Financial Calendar

May 15, 2019
Announcement of figures for the first three months of 2019

May 22, 2019
Payout of dividends on profit participation certificates for the 2018 financial year

August 29, 2019
Announcement of figures for the first half of 2019

November 7, 2019
Announcement of figures for the first nine months of 2019

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